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INCLUSIVE GROWTH AND STRUCTURAL CHANGE IN SOUTH AFRICA

INTRODUCTION

The presentation consists of generic comments, proceeding from the understanding that various aspects on how to drive the country's industrial agenda will be covered in the detail in the rest of the programme.

We have been requested to reflect on the nexus between structural change and inclusive growth. This derives, one supposes, from the appreciation that we can try one without the other: but the outcomes in each instance will not be optimal.

Narrow and technical change in the structure of the economy, in terms of balances among the various sectors, may expand economic opportunities. But in a society such as ours, this may simply reproduce the inequalities we have inherited.

On the other hand, attempts at forging inclusivity, within the context of the path dependency of old, would flounder on the rocks of an inherently low growth trend and binding constraints. It may end up as the sharing of a shrinking pie.

The fundamental issue here is that, in order to attain economic transformation that is truly beneficial to society, you need a combination of structural change and inclusive growth.

REALITY IN MACROSOCIAL ENVIRONMENT

Let's start off by reflecting briefly on the question: why is radical economic transformation gaining such currency in policy discourse?

This is in part because of the stubborn perpetuation of the social relations that we inherited from apartheid colonialism. The structure of the South African economy is still trapped in the minerals-energy complex. It is characterised by high levels of concentration and centralisation of capital. Small and micro-enterprises are not as large a proportion of GDP as in comparable countries; and manufacturing has massively declined.

Income and asset inequality has not been dented. Though the gap between Black and white has declined; inequality within the race groups – particularly among Africans – has widened. In other words, without drastic interventions, the social relations of the past get reproduced. We thus end up with an economic system that is akin to 'racial capitalism'.

And so, the call for 'radical' economic transformation issues from frustration with this state of affairs.

DEBATING 'RADICAL' AS NOMENCLATURE

But how radical is radical: and does the mouthing of the slogan necessarily imply genuine intent?

The starting point, in my view, is that the totality of the process of change, as envisaged in our Constitution and its four generations of rights, is itself a radical undertaking.

However, in the current context, 'radical' is meant to refer to the content of policy and social outcomes as well as pace and effectiveness of implementation. This does not necessarily imply pulling rabbits out of a hat. It may well be that 'ordinary' interventions, properly aligned and sequenced can produce 'extraordinary' outcomes'. We must also be vigilant that the language of 'radicalism' is not deployed merely to benefit the elite, or well-connected individuals and families.

Radical approaches and outcomes should be sought in the splendid combination of structural change and inclusive growth.

STRUCTURAL RECONFIGURATION

How then can the structure of the economy be reconfigured?

We proceed from the assumption that all are familiar with the National Development Plan, the New Growth Path, the National Industrial Policy Framework and the various iterations of the Industrial Policy Action Plans.

In my view, the approach to changing the structure of the economy should be premised on the understanding that the economy is meant to serve society and not the other way around. Thus, the structure of any economy can only be considered appropriate if it lays the basis for high rates of growth; and if it generates more wealth that society can share.

What is the broad storyline in this regard?

Firstly, the infrastructure programme enjoys pride of place because it helps address some of the binding constrains to high rates of growth. It crowds in the private sector; reduces the cost of doing business; and opens up opportunities for employment. But it assumes added significance because infrastructure projects rely on all manner of supplies: from cement and base minerals to manufactures such as, for instance, railway tracks, locomotives, brakes, signalling systems and coaches.

Now, given the trillion Rand that we spend every five years on infrastructure programmes; and given that sub-Saharan Africa is expected to spend some US$200-billion by the turn of the 2020s on infrastructure, it makes commercial and strategic sense that the wide array of these supplies should be produced on the continent. The continental infrastructure programmes will continue for decades to come. And so, economies of scale should afford South Africa and her neighbours the opportunity to build sustainable manufacturing capacity around these programmes.

Secondly, the critique of the minerals-energy complex is often interpreted to mean that the mining sector is a sunset industry. Quite the opposite! South Africa's mineral endowments, valued at about US $2-trillion (the highest in the world), present limitless opportunities for a new industrialisation drive. The restructuring of the economy should, therefore, also entail building a mature mining industrial cluster that combines extraction with forward and backward linkages. This would include, in the modern era, fuel cell technology that utilises South Africa's 80% of world Platinum Group Metals reserves. Beyond catalytic convertors and fuel cell vehicles, urgent policy and programmes are required for stationary applications in terms of electricity generation, especially in rural areas; but also as back-up generators in public facilities.

Beyond this, the infrastructure programmes in sub-Saharan Africa will themselves demand more base and other metals. And so, as Chinese demand declines against the backdrop of a changing economy, and combined with a surging India, our continent should become not just a producer; but also a consumer of these minerals.

Thirdly, there is consensus that, in spite of the hiccups that the African continent may currently be experiencing, the long-term trend is upwards. This is already manifesting in the number of people employed, and in the growth of the middle strata – all of which has major implications for consumer demand. This is yet another major opportunity for manufacturing in the region as a whole.

Fourthly, there are specific niches such as the Green and Ocean Economies. The fortune of geography affords us the opportunity to serve as a transhipment hub and as a marine manufacturing and servicing centre; and we have done very well in terms of green technology procurement.

The National Development Plan also outlines, in a bit of detail, how focussed action in agriculture can revitalise the sector and create upwards of 1-million new jobs by 2030, through, for e.g.: the expansion of irrigated agricultural land; higher levels of commercial production; picking sectors and regions with high potential; and facilitation of access to product value chains.

There are many other examples that can be cited. However, what also needs noting is that the services sector, ranging from finance and engineering services to hospitality and community services, as well as small and micro-enterprises would benefit significantly from such restructuring. But this requires a regulatory system that is facilitative rather than punitive in relation to small entrepreneurs.

The question has been raised whether the so-called fourth industrial revolution will not disrupt all such efforts! A level of disruption is unavoidable; and structural change should include the value chain of research, development and application. But I would argue that South Africa can exploit niches in low-end manufacturing taking into account the off-shoring that China is now experiencing as it moves up the manufacturing sophistication ladder. Some 85 million jobs will migrate as a consequence of this; and through IDZs, EDZs and other mechanisms, we need to take advantage of this, as Ethiopia, Rwanda and Kenya are already doing. Of course, South Africa's unique circumstances will dictate that, if this is undertaken, it should be with the understanding that low-end manufacturing is not used to lower the conditions of those already in 'decent jobs'.

This briefly reflects some of the tasks in relation to structural change. What then about the other side of the equation: inclusivity?

FORGING INCLUSIVE GROWTH

As we all know, inclusive growth pertains to the fundamental question of political economy. In the words of David Ricardo: *The produce of the earth – all that is derived from its surface by the united application of labour, machinery, and capital, is divided among … classes of the community … To determine the laws which regulate this distribution, is the principal problem in Political Economy...* [http://www.econlib.org/library/Ricardo/ricP1.html#, On the Principles of Political Economy and Taxation, 1817, p.1 & 3].

Inclusive growth relates in part to changing the patterns of ownership and the entry of Black people into productive and service sectors. We referred earlier to supplies for infrastructure, increasing consumer demand, a mature mining industrial cluster, low-end manufacturing, agriculture as well as the Green and Ocean Economies. All these are emergent opportunities that the nascent entrepreneurial and industrialist "class" within the Black community can exploit.

This of course will require all manner of support from the state. But inclusivity at this level should be less about state patronage; and more about bourgeoning opportunities that the Black entrepreneurs can utilise. Inclusivity in terms of ownership patterns should be less about shareholding in established enterprises – important as this may be – and more about the organic and more enduring emergence of a Black "entrepreneurial class" in a restructuring economy.

Related to this is the empowerment required in the professions and management. This demands not only a change of mindset and culture in established enterprises; but also, better performance by the state in terms of education and skills training, and enforcement of the empowerment codes. Also required are more focussed and targeted approaches to the financial sector and land reform.

Having said this, a few fundamental principles deserve noting.

The first one, to reiterate, is that inclusivity cannot be just an elitist undertaking. With regard to ownership, therefore, we need to pay more attention to arrangements that benefit workers and communities. Employee Share-ownership Schemes and profit-sharing should be given more prominence. These arrangements may have their complications. But combined with financial education, appropriate training, and meaningful participation in decision-making, such programmes can stand workers in good stead. They can help improve workplace cohesion and productivity.

An attempt on the part of a Black elite, to monopolise the benefits of economic empowerment can only worsen inequality. Charles Dickens' observation in A Tale of Two Cities, bears universal relevance: *Crush humanity out of shape once more, under similar hammers, and it will twist itself into the same tortured forms. Sow the same seed of rapacious license and oppression over again, and it will surely yield the same fruit according to its kind.*

The second principle is about forms of redistribution. This needs to happen through pre-tax measures by means of an income policy that regulates income differentials at enterprise and company levels. An income policy should include a national minimum wage. Further, you also need post-tax redistribution in the form of progressive taxation and pro-poor fiscal spending. The gilded age of trickle-up economics that has seen global resurgence in the past 30 years – and which is very much in evidence in South Africa – is not sustainable

The third and obvious principle pertaining to inclusivity is about growth and job-creation, specifically, what some refer to as pro-poor growth and pro-growth poverty reduction. For inclusivity to guarantee an improving standard of living, it has to be founded on a growing economy. That growth should provide opportunities for the majority of the population in terms of jobs and self-employment. There may be instances where specific industrial policies may disadvantage the poor; and, in that case, there should be focussed action to alleviate this. On the other hand, poverty reduction measures should be combined with appropriate industrial interventions to generate a virtuous cycle. For instance, it would be of little economic benefit if the goods that workers and beneficiaries of social grants buy, such as toasters, suitcases and microwave ovens are imported.

The last principle on inclusivity is about the broader notion of a decent standard of living. Besides matters to do with access to basic services – on which we have done well despite challenges of quality – two issues stand out in the South African context. One relates to the ubiquitous presence of monopolies and rent-seeking in critical economic sectors. Because of this, we have very high mark-ups in South Africa's product markets. The other is about inherited spatial economic and settlement patterns, such that some workers spend up to 40% of their wages on transport. This, in reality, is a form of apartheid tax on the poor.

CONCLUSION

In conclusion, the point needs to be underscored that success in implementing strategies such as these requires a capable developmental state that has the capacity not only to develop a vision; but also one that is both embedded in society, and is autonomous of interest groups. Critical in this regard is the strategic utilisation of State-owned Enterprises including Development Finance Institutions to help facilitate and direct economic activity. Fundamentally, there is also need for a professional and stable bureaucracy, and a "pilot agency" within the state, with the authority, leverage and credibility to give leadership across government. An economic Tower of Babel such as we currently seem to have, cannot attain the objectives of structural change and inclusive growth.

And, lest we forget, dealing with inequality is in the interest of both the rich and the poor. Besides enhancing social cohesion, it promotes positive macrosocial indicators across the board, including for instance violent crime and educational performance among children of both the rich and the poor. Critically, lower levels of inequality have also been shown to correlate with high and sustained economic growth spells.

And so, bringing together structural change and inclusive growth requires a social compact among all sectors of society. Thus, will shared prosperity, social justice and human solidarity become a reality.

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