# Giving the market a little bit of help!

Cosatu's second highest decision-making body – the Central Committee – meets in August to adopt some key policy positions on issues relating to, amongst others, the implementation of its 2015 plan, an assessment of its impact on policy shifts in government, industrial strategy and what is a development state. The **Labour Bulletin** highlights the key aspects of a draft Cosatu paper on the development state and what this concept means in the South African context.

The concept of the 'developmental state' has again surfaced in alliance discussions on economic policy. But the South African state cannot simply be shaped to match some ideal type. Rather, the concept of the developmental state points to weaknesses in the state as critical to shortcomings in the economy. From this standpoint, core issues are:

- The failure to prioritise economic development and to mobilise capital and civil society around it by ensuring broad-based benefits from growth.
- The narrow export orientation of industrial policy, without adequate orientation toward diversification and the protection of the domestic market as the basis for new industries.
- The inability to direct resources systematically to new industries.

## THE ORIGINS OF THE 'DEVELOPMENTAL STATE'

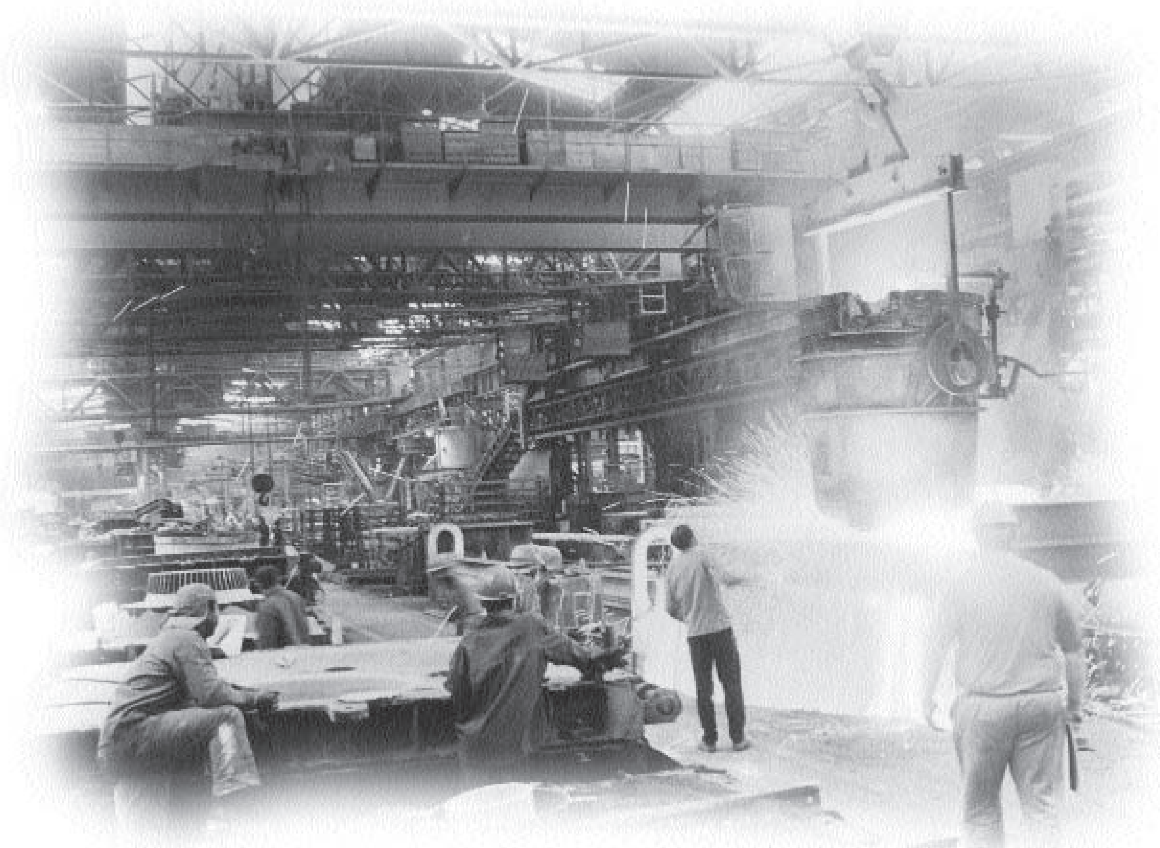
In South Africa, the concept of the 'developmental state' is generally used to mean a state that drives development, in contrast to a free-market approach. The concept arose, however, from a much more specific effort to generalise about the industrialising states of Asia, especially Japan and Korea.

The model of the developmental state originated with a US Asian studies scholar named Chalmers Johnson. For him, the critical element of the developmental state was not its economic policy, but its ability to mobilise the nation around economic development within the capitalist system. In effect, these states endorsed a revolutionary project – although, in his view, 'what distinguishes these revolutionaries from those in the Leninist states is the insight that the market is a better mechanism for achieving their objectives than central planning.'

The absolute prioritisation of industrialisation by the developmental state differed from the norm in, amongst others, Latin America (and indeed much of Africa), which can be described as pursuing a '…showcase modernity,' aimed not at self-sustaining development but at reaching a set of elite consumption patterns appropriate for developed countries. This leads to the following mutually reinforcing aspects: a consistent pattern of exuberant consumption, heavily skewed in favour of urban elite groups at the expense of the rural and lower-income majorities; industrial sectors oriented primarily toward the domestic market; the insertion of national economies into the international system via trade in natural resources; and the dubious leadership role played by either the state or national industry.'.

In class terms, the developmental state was closely allied to business but able to maintain the autonomy needed to drive development of new industries. It maintained mass support through a combination of nationalist propaganda, substantial improvements in living standards for workers and small business people associated with rapidly increasing employment, and paternalistic labour relations in larger companies. In terms of economic policy, the state intervened vigorously to develop new industries, using a combination of massive amounts of subsidised credit, strong tariff protection, substantial training and infrastructure development.

Historically, South Korea and Taiwan essentially copied Japan in establishing '…light-industrial exporting under multiyear plans, guided by strong state ministries (if less so in Taiwan than Korea). This gave all three economies a highly neomercantilist, nationalist tendency; in Japan and Korea especially, it meant strong state involvement



with and promotion of big economic conglomerates.'

Both these roles point to the importance of a clear vision of the structural changes that could diversify the economy and ensure broad growth. Most authors see close, even corrupt, links to business as central to the developmental state. But the ability to establish and maintain legitimacy and equality seems an equally important lesson. As Joao Campos and Hilton Root demonstrate at length, the successful Asian states undertook substantial efforts to ensure more equitable ownership and opportunities through the 1950s. They emphasised land reform, relevant education and training, support for small enterprise and provision of housing and infrastructure. Improvements in social protection focused on measures that would reduce the cost of employment and raise productivity.

At the same time, support for light industry meant that employment rose rapidly, laying the basis for rising living standards without much increase in pure welfare spending. Growing employment was backed by limitations on retrenchment and high spending on skills development. In Singapore, Taiwan, Malaysia and Indonesia, dismissal is relatively easy for poor performance, but the minimum retrenchment package is one month's pay per year of service. The skills levy is around 5% in both South Korea and Singapore.

In this context, the dominant companies adopted labour relations characterised by job security, strong career paths for men, and paternalism. According to TJ Pempel, in Japan the combination of shutting unions out of national policy development while establishing 'plant-level corporatism resulted in the kind of plant-level harmonisation of worker and business interests that involved workers showing up 15 minutes early, singing the company song in the parking lot and then working doubly hard to embarrass management into granting our demands.'

State action never takes place in a vacuum. The success of the developmental state in Japan, Korea and Taiwan resulted as much from peculiar international and national circumstances as from good policies.

The concept of the developmental state is distinguished from both right and left views of the ideal state as well as from the realities of most developing countries. On the right, the Washington Consensus argued that the state should not intervene to direct the structure of production or ownership. Rather, as the 2005 World Development Report emphasises, it should seek to enhance overall competitiveness, then let business determine the direction of investment. It can increase competitiveness principally through investment in infrastructure, education and training. But it should avoid structural measures – which the World Bank calls 'targeted' policies – that seek to promote particular sectors or types of ownership such as small enterprise. And of course, it should not own large sectors of the economy or direct credit to desirable activities.

In contrast, leftwing observers have generally welcomed the perception that successful states in the South must intervene extensively in business decisions in order to restructure the economy. But they are troubled by the narrow focus on industrialisation, rather than on social or human development. Moreover, they reject the bias toward capital rather than labour or other mass-based groups. The effective repression of unions is especially troubling.

The concept of the developmental state

implicitly (or in some cases explicitly) suggests a critique of Third World states in Latin America, Africa and India. It points to the failure of most states to prioritise economic development and compel cooperation from business. Instead, at best, these states focus on maintaining existing economic activities, even when they are no longer viable or on fiscal redistribution to raise living standards through welfare, rather than employment creation.

Hence, the concept of developmental state does not simply mean that the government actively directs economic development. Instead, it has a peculiar intellectual history, which derives primarily from the experience of industrialisation in Japan, Korea and Taiwan. It emphasises the ability of the state to drive development by guiding capital toward new activities while maintaining broad-based support, including from workers.

## DOES THE CONCEPT HELP?

In applying the concept of the developmental state, the fundamental question is whether we can learn from the success of selected Asian countries. After all, these states succeeded in specific historical circumstances, both at home and abroad, which we cannot recreate. In addition, observers disagree about which factors were most important in their overall success. Thus, just in terms of economic policy, different authors argue that the success of the Asian economies arose because:

- They undertook strong measures to enhance equality of ownership, skills and incomes through the 1950s.
- They repressed labour and generally had authoritarian governance structures, letting them mobilise and discipline stakeholders around developmental strategies.
- They maintained stable macroeconomic conditions and ensured overall competitiveness. In this view, adopted strongly by the World Bank, their economic growth resulted despite, not because, of industrialisation policies.
- They had strict merit-based promotions in the public service, ensuring high-quality governance and autonomy.
- They successfully supported new industries by combining incentives and discipline for local business, especially through cheap credit, tariffs and exports promotion.

Fundamentally, the problem is that the experience of other countries does not prove any general truths that must be slavishly adopted. Rather, they give us ideas about possible causes of failure and solutions.

To start with, we need to define the main challenges facing South Africa. The Presidency's *Toward a Ten-Year Review* and Cosatu's Secretariat reports generally agree that:

- South Africa has made great progress in consolidating democracy and redirecting government spending toward the poor.
- The main failures have been on the economic front. On the one hand, unemployment and massive inequalities in ownership persist. On the other, investment and growth remain low by world standards.

In these circumstances, substantial dualism remains, with most of the population effectively marginalised from the formal sector.

If we use the concept of the developmental state to suggest explanations for the failure to ensure more rapid and equitable growth, the main arguments appear to be:

- The dominant economic groups were based in mining and the related financial activities, rather than manufacturing and trade.
- The government has not rigorously prioritised equitable, employment-creating growth in either social-protection or economic programmes.
- Economic policy has adopted an export orientation, but has not ensured a basis for local production in an increasingly equitable, prosperous and protected domestic market. Meanwhile, monetary policy targeted inflation rather than maintaining an undervalued rand, which undermined the export strategy.
- Government did not ensure direct benefits to workers and communities from economic growth. This has led to persistent conflict in the workplace and the community.

## CONCLUSION

The concept of the developmental state effectively seeks to explain why the countries of East Asia have industrialised, while the rest of the South has largely remained trapped in poverty and resource dependency. It tends to neglect critical factors beyond the control of the state. Still, it points to areas where South African policies have been weak. Above all, it suggests the importance for economic development of:

- providing all government agencies and departments with an unambiguous mandate to prioritise equitable, employment-creating growth;
- understanding how the historic dependence on mining shaped economic systems and relationships in ways that block the emergence of other industries;
- building export industries on development of the domestic market and other government support measures, rather than assuming they will emerge spontaneously from the reintegration into world markets;
- ensuring real increases in living standards for workers in part by reducing the cost of basic necessities, including transport, and in part by holding down the value of the rand;
- developing genuinely broad-based black economic empowerment (BEE) and employment equity, so that growth retains popular support by opening opportunities to workers and small enterprise.

This does not, of course, constitute a comprehensive development strategy. It leaves open some crucial questions. In particular:

- Is there a contradiction in the short run between the democratic state's welfare orientation and a rigorous prioritisation of economic development?
- Can Cosatu support the kind of 'plant-level corporatism' described in large Asian companies?

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*This is an edited version of a draft discussion paper to be debated at Cosatu's upcoming CC in August 2005.*