THE MARKET-VS-STATE DEBATE IS SO 1980s

Peter Bruce argues that the government should "stop making us fight for a bad idea" (*Business Day*, 20 February 2015). His article reacts to Economic Development Minister Ebrahim Patel's statement that "Slower domestic and international economic growth requires that we do much more to speed up inclusive growth, job creations, radical economic transformation and realising the vision of the Freedom Charter."

Mr Bruce argues that an "importing economy with 25 percent unemployment *can't* radically transform itself without increasing that number. It *can't* realise the vision of the Freedom Charter without making poverty worse" (his emphasis). He then proceeds to argue that the private sector is the only "truly dynamic force" and that "the only way to begin to cure poverty, inequality and exclusion is by setting business free to make honest profits".

Is that really the case? It is true that capitalism has brought higher levels of income and wealth than any other system in history. But a free, unregulated market has brought higher levels of social inequality and insecurity.

With the advent of Reaganomics and Thatcherism in the 1980s, the US and UK embarked on large-scale economic liberalisation. Gone were the days of Roosevelt's G-men (government men) who could be trusted to solve society's problems with programmes such as the New Deal. Ronald Reagan's mission was to remove government from people's lives. When asked whether this would not hurt the poor and the middle classes, the stock answer was that freeing up markets to let business make profits would lead to a "trickle down" effect: ultimately, the poor would also benefit.


Peter Bruce: "The private sector is the only dynamic force."

Thirty years on, we can now empirically test that prediction. The evidence indicates overwhelmingly that it is wrong. Thomas Piketty's *Capital in the 21st Century* shows that, if anything, there has been a trickle *up*. His extensive work, which covers a host of countries, shows that inequality has been on the rise since the 1980s, when these free market policies were implemented. Inequality is as high today as at the end of the 19th century. The median wage in the US and UK is the same today as in the 1980s: it did not increase in over three decades. Can we therefore really proclaim with such confidence that South Africa only needs to set business free to make profit?

The 1990s saw some further freeing up of business in the developed world, this time of the financial sector. The Clinton administration in the US repealed the Glass-Steagall Act that separated investment banking from commercial banking. Similar reforms in other countries transformed their financial sectors. Financial institutions boomed, but unregulated trade in exotic financial instruments constructed by so-called "financial engineers" resulted in 2008/09 in the largest recession since the Great Depression – and it was only Big Government that prevented them from going bust. The only reason that South African banks did not suffer similar losses is that they were still subject to exchange controls that prevented them from engaging in such speculation. Can we therefore really proclaim with such confidence that all that is needed in South Africa is to set business free to make profit?

Internationally, businesses increasingly use capital-augmenting labour-saving technology (i.e. technology that makes physical capital goods more productive to the point that less labour is needed). Because of this trend, labour's share in total income has been shrinking – and the share of business increasing – for more than two decades. The same pattern holds for South Africa. If left alone and freed up, business can be expected to perpetuate this trend, thereby leaving labour an even smaller slice of total income. »

Economists such as Nouriel Roubini and Dani Rodrik argue that, unless governments intervene to ensure that workers share in the benefits brought by such technology, the world runs the danger of stagnating wages leading to stagnating demand, low growth and still higher inequality. Such intervention includes improved education to create skills and encouraging research in technology that creates higher demand for labour. Can we therefore really proclaim with such confidence that all that is needed in South Africa is to set business free to make profit?

Evidence of the past thirty years teaches us that we cannot. This does not mean that business does not have an important role to play. It also does not mean that we should trust government to solve all our problems. Indeed, we know that SA's education and health systems and our infrastructure management leave much to be desired. Corruption and service delivery are also major issues that need to be addressed, before they totally engulf us.

We may not have regained our trust in the G-men of old, but we certainly do not have an unshakable trust in the B-men running our businesses. Today we behold both with a healthy measure of scepticism. This means we can move beyond the sterile market-versus-state debate that is so 1980s. Rather, we should ask how the government and the business sector can be true partners, optimising the strengths of both sectors while mitigating the weaknesses of both. A true partnership means that businesses make fair profits in a manner that also allows the government to advance its goal of a South Africa that truly belongs to all who live in it.

By Philippe Burger

PROVINCIAL MISCONCEPTIONS OF THE DEVELOPMENTAL STATE

Our geography has many fortunate consequences. We are part of the continent of the future. We have our natural wealth, and we have our weather. But it has at least one drawback, and a severe one at that. We are far away from the present. It is 15 hours from Asia and America. It is a little closer to Europe, but we tend to gravitate too much to certain parts of it. Wimbledon is not the world.

A consequence of this isolation is a certain provincialism. In some fields, such as cuisine, it results in nothing more than a slight discomfort. It matters more in commerce, where our firms often have little idea how far they are behind good management practice– and are too inward looking and self-satisfied to want to change.

But perhaps the most noticeable arena of provincialism is our press, and its commentary on policy and the state. Prominent columnists and editors frequently make statements about the world that would be greeted with a bemused, not to say condescending, smile in a more connected country, or at least would be relegated to the darker corners of the media. To take a recent example, a columnist recently made the following statement: "The 'developmental state' is just an idea. We borrowed it from Malaysia but failed to check ourselves when they dropped it because it wasn't developing anything."

This is somewhat curious. Perhaps the columnist read an *Economist* article or a poorly researched thinktank article about Malaysia and thought he knew about it. In reality, under its National Transformation Programme, Malaysia is currently executing perhaps the single most ambitious effort to implement "new industrial policy" in the developing world. It extends from a fixed target for income – US$15 000 by 2020 – down through specific targets for a dozen industries and a hundred state key performance indicators (KPIs) tracking the arrival of tunnel-boring machines. This isn't obscure: there are government websites that detail all of this, down to the individual industry target.

Moreover, Malaysia has certainly not dropped its "developmental state" policy for mineral resources. Its cumulative taxes on oil and gas production make the South African government's 20 percent free carry – apparently the death-knell for an industry – look rather modest. As, for example, does Norway's effective tax on oil – above 75 percent – or the UK's 50 percent tax on oil and gas production over and above ordinary company tax. But Malaysia and Norway are far away, and there is no oil in southwest London, so when nice oil executives arrive and make such statements, no one thinks twice before parroting them.

Another example, in the area of foreign exchange intervention, relates to a different continent. The same columnist wrote in December that "most of the Chilean economic policy elite studied their economics under Milton Friedman at the University of Chicago."

This was true, once. The writer is referring to the "Chicago Boys", who

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were the policy elite in the first period of General Augusto Pinochet's rule. One might think he had read Juan Gabriel Valdes' book about them. Except, he clearly had only read a review or summary, or perhaps picked up a tidbit at a dinner party. Anyone with even the most superficial knowledge of Chile or the Chicago Boys will know that their hold on policy ended over three decades ago. After a few years of a consumption-led boom, financed by exploding inward flows of international credit, their policies led to economic catastrophe. In 1982–3, Chilean GDP contracted by 14 percent and unemployment soared to 25 percent.

Pinochet fired the Chicago Boys, personally insisted on a state-led devaluation of the Chilean currency, and was then pressured by business itself, as well as exploding labour protests and the reawakening of political opposition, to restore fiscal expansion and industrial policy. The resulting "mixed model" – a Latin American developmental state if ever there was one – has resulted in Chile pulling away from its region. By contrast, the Chicago Boys' brief tenure resulted in no significant difference in growth, whether in Chile's past or its contemporaries in Latin America, and ended with unemployment similar to South Africa's today.

These examples could be multiplied. The Free Market Foundation recently published a report lauding Mexico's reformist government. Three years ago this opinion was heard in connected countries too. But a year ago it became clear that the Mexican reforms were not delivering the growth that had been promised, and today the president's approval ratings are plummeting. The international press is now principally writing about what has gone wrong – but here, being so isolated, we are still talking about it going well.

Unfortunately, provincialism is not the monopoly of the right. If their views often sound like an ersatz version of late-'80s Thatcherism, swathes of the left sound like ersatz versions of late-'80s Parisian Marxism. It is not propaganda to state that Venezuela is collapsing, and the collapse is not the result of "imperialism". It is the result of a lousy state. It is vitally important to distinguish it from Bolivia, which seems to be achieving remarkable things. Morales and Chavez are different, and the "developmental state" does not result from spouting lines about liberation.

In fact, the single most successful developmental state – albeit a hidden one – may even be the centre of "imperialism" and of "neoliberalism" (at least, its ideas). The US is only superficially laissez-faire. In truth, its states are aggressively developmental. Even Rick Perry, the arch-Republican former governor of Texas, handed subsidies to Chinese companies to build research and development facilities in his state. The US is also home to perhaps the world's most successful industrial policy agency, one that fought and defeated Japan's famous Ministry of International Trade and Industry (MITI). From the late 1980s, its Defense Advanced Research Projects Agency (Darpa), which created the internet and seeded large swathes of Silicon Valley, helped initiate and fund the US semiconductor industry's fight against Japanese competition.

In all, far from being "just an idea", the developmental state is instrumental in the world's two most successful economies at present – the US and China. It is still alive and kicking in Malaysia, and it exists in different varieties in Latin America, in Chile and, perhaps, Bolivia. But it is more than a slogan. To know these things requires a certain worldliness, and an attitude of modesty that privileges learning, that finds phrases like "we already know that" or "we already do that" to be anathema. It may be that, before we can succeed in building a developmental state in Africa, we must first learn to learn, and thus escape the provincialism that constrains us now. NA

By Alexander List