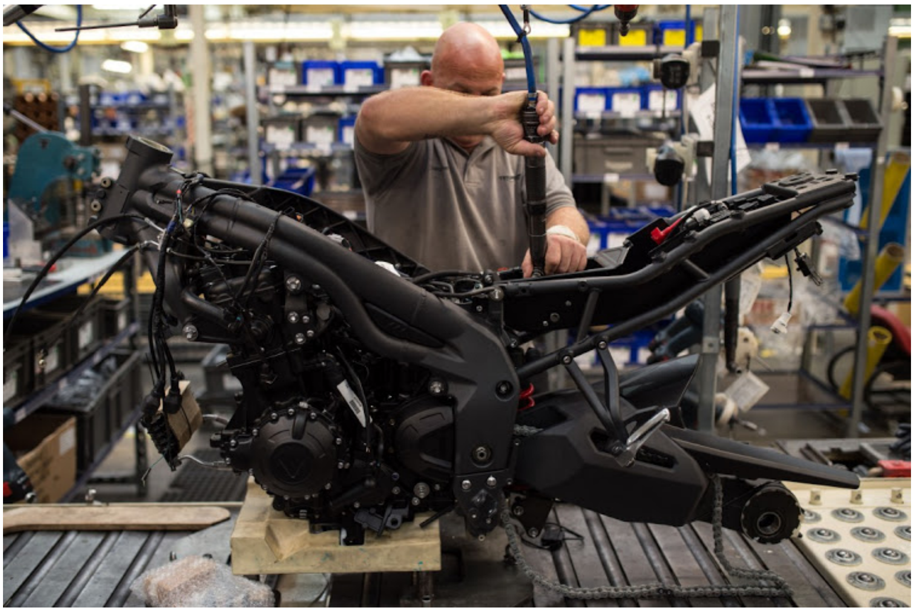
OPINION / COLUMNISTS

NEVA MAKGETLA: SA is relaunching industrial policy, but what does that mean?

In order to implement effective industrial policy, the state needs to be clear about the factors that make investment and growth unprofitable

BL PREMIUM

03 SEPTEMBER 2019 - 05:05 *by* NEVA MAKGETLA



File photo: AFP/OLI SCARFF

It doesn't exactly dominate the news cycle, but the current effort to relaunch SA's industrial policy has major ramifications for economic policy. If it results in a substantive upgrading in how SA conceptualises and implements industrial policy, it has the potential to lift the economy into inclusive growth.

Industrial policy is notoriously hard to pin down — except in terms of what it isn't. It isn't the Washington Consensus, which holds that the state should get fiscal and monetary policy right, then let the business decisions structure production based on market signals.

In contrast, industrial policy presumes that, in postcolonial societies, the government has to intervene to reshape the economy away from commodity dependence and to build industrial capacity otherwise inherited market institutions, infrastructure, educational systems and regulations will in effect hinder the emergence of new enterprises and innovative production systems.

By extension, industrial policy presumes a mixed economy, where government has to manage private actors to achieve socially desirable aims, not simply seek to replace them with government agencies. An effective industrial policy thus requires a functional paradigm for dealing with business, as well as capacity to understand and respond to domestic and global economic developments that lie outside government control.

ADVERTISING

Coming up with a reasonable strategy for government engagements with big business is hard in an unequal society like SA. In a democracy, everyone in theory has an equal voice in policymaking. In the economy, however, a few big companies wield enormous power. In meeting the demands of its constituents, the democratic government therefore has to find ways to manage big business. In practice, however, since 1994 it has mostly alternated between unrealistic commands, ineffective horse-trading and abject surrender.

Consider how this would look in any other kind of management. A good manager doesn't just order subordinates to produce, continually renegotiate their duties or promise them whatever they want if they just stay on the job. Rather, she sets up systems that make it easy for workers to meet their targets — above all by ensuring they have appropriate pay and working conditions, technology, inputs and training.

If the government is serious about implementing industrial policy, it needs to be clear about the factors that make investment and growth unprofitable. Blockages typically grow out of limits on domestic demand and global sales; infrastructure, with electricity currently looming large; the cost of inputs, especially when suppliers have effective monopolies; and the cost of skilled personnel and new technologies. Effective industrial policy starts by figuring out if and how the government can address these constraints in ways that promote inclusive industrialisation.

Viable and effective industrial policies must be rooted in economic realities, which means that stakeholders can get a hearing in the government and that the government has capacity for economic analysis. That in turn requires engagement platforms that are neither toy telephones nor difficult to access. Engagements waste time if government representatives don't have clear priorities and claims; if they can't analyse business demands and come up with a sound response; and if they can't get mandates without long delays.

In practice, most government economic departments originated to enforce regulations, not to promote industrial development. They arose to drive minimum standards for workers and consumers; to maintain infrastructure for established producers; and to manage trade relations. Most have neither efficient mandating systems for engaging stakeholders nor, outside of the department of trade & industry, much alignment with industrial policy. As a rule, they lack units with the capacity to analyse either the socioeconomic implications of stakeholder demands or the economic effect of their own policy proposals.

The new role outlined for the presidency to ensure a vision of industrial policy and to develop a co-ordinated government-wide response to blockages to growth is critical. Success will require both a coherent strategy to engage constructively but not supinely with big business, and increased capacity within the government to analyse policy options.

• Makgetla is a senior researcher with Trade & Industrial Policy Strategies.