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Playpen economics

Nic Dawes: FIELD NOTES

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The department of trade and industry has at last released its national industrial policy framework. But anyone who was waiting for some specifics -- say, economic modelling -- would be surprised to find that the department calls instead for a process of “self-discovery”.

If you think that sounds like something teenagers do behind locked bathroom doors, or what their parents learn at self-help seminars, you wouldn’t be far wrong. In South Africa’s economy, adolescent angst and incipient lust must share a home with midlife ennui, and to satisfy both, the department wants to sponsor encounter groups on a suitably industrial scale.

Business and government will meet. They will explore each other’s needs, maybe test the boundaries a little and, in the end, make a safe space where something beautiful can happen: call centres, film studios, diamond cutting works, garment factories.

These expression sessions aren’t exactly what Dani Rodrik, the Harvard development economist who plays guru to the department’s anxious officialdom, means by “self-discovery”, but the rough idea is the same: a period of state support for promising sectors of the economy that enables them to test their strength.

When the strongest of the infant industries are all grown up, and the weakest have fallen by the way, when the middle-aged have had psychotherapy and the elderly hip replacements, then we can face global competition with confidence.

Business, to which this story is a familiar lullaby from the bad old days, seems happy to hear it once again, so it is left to the national treasury to quietly point out that what is good in this approach is not new, and what is new(ish) is not good.

It should now be painfully obvious that South Africa needs lower bandwidth costs, that import-parity- pricing for raw materials hurts local manufacturing, and that the state needs to support investment in infrastructure. So much for the good.

The department would like us to think that the case for the new is equally obvious. The framework stresses the need for enterprise finance -- big state-backed loans for developing industries, closely coordinated with sector strategy.

It is clear, however, that other options are also on the table, including tax incentives and a more defensive trade policy. The department cites plenty of research to the effect that interventions of this kind gave the Asian Tigers their roar, and ignores the equally plentiful evidence to the contrary.

So it is worth reviewing the standard argument against industrial policy. Governments cannot “pick winners”, the doubters say. Trying to do so leads to inefficiencies in the way that resources are allocated, and can create weak businesses that crumble in the absence of state support. And the whole process is vulnerable to capture by special interests. Companies that are effective at lobbying tend to win favour, whether or not they are effective at making things.

We are supposed to understand, however, that the framework is cleverer than that. There will be three-year plans and performance monitoring. Programmes that don't work will be terminated. Money will not be wasted.

That is to be doubted. The only major sector support plan that the department runs today is the ruinously expensive and wasteful Motor Industry Development Plan (MIDP).

As Ontario-based economist Frank Flatters points out, the MIDP costs more than the entire higher education budget. It pushes up car prices, which limits sales volumes, and ultimately hurts job-creating businesses like panel beating and after-market accessories.

"The main impact of the MIDP is to transfer income from South African consumers to the shareholders of the company making the investment," Flatters argues.

Far from terminating the MIDP on schedule in 2012 -- when the industry will have had 16 years to grow up -- the DTI is pre-empting its own review to assure car makers that their lobbying will be rewarded with an extension until 2020.

And then there is the question of capacity to implement. Simply put, the department doesn't have it. The "developmental state" model relies on an elite corps of highly trained bureaucrats tweaking the levers of the economy in real time. The department's record does not suggest it is on par with, say, Japan's ministry of trade and industry. This, after all, is the department that brought you arms-deal offsets and Chinese textile quotas.

Of course, the state should support industrial development.

It should invest in infrastructure and produce an educated workforce. It should keep its people healthy enough to do a day's work, and it should provide public transport so they can get to their jobs on time. The state should also promote competition and lower input costs, not just by talking about it, but by using every legal means available to attack monopolists.

It should lighten regulation where necessary to spur growth, not just in a few selected industries, but across the economy. That might mean politically awkward decisions about labour and empowerment rules, but that is what 70% electoral majorities are for.

Real self-discovery doesn't happen in the playpen, it happens on the battlefield of the market -- and we should be stepping out, not stepping back.