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## Successful growth in SA would give the experts lots to chew on

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IF SA's economy fails to grow, it won't be for lack of input from the world's leading thinkers on economic growth.

The work of the Harvard-based panel of experts that is advising the government on the Accelerated and Shared Growth Initiative for SA (Asgi-SA) continues. And last week the locals had the benefit of a visit from Michael Spence, winner of the Nobel prize for economics in 2001 and chairman of the independent Commission on Growth and Development created last year by the World Bank to understand the growth challenges faced by developing countries.

Finance Minister Trevor Manuel is one of the members of the commission, and its working group of distinguished economists includes Harvard's Dani Rodrik and Ricardo Hausmann, who are also leading lights on SA's panel of experts. Spence's hosts kept him busy last week giving public lectures at Wits and UCT and at several sessions of the World Economic Forum on Africa in Cape Town, as well as running more private workshops in the national treasury and at the National Economic and Development Council. Also on the Spence road show was Roberto Zaghera, who led the World Bank's 2005 report on economic growth.

Some of what's being said about growth is beginning to sound familiar to South African ears: the need to boost manufactured exports, as well as savings and investment; the idea that growth is as much about political leadership and building political consensus for the growth process as it is about economics. Where the "Washington consensus" of the 1980s prescribed economic reforms that were supposed to promote growth, the new growth economists adopt a more empirical "growth diagnostics" approach that accepts that each economy has its own idiosyncrasies and there isn't a formula that applies across countries. If there is consensus among them it is, simply, that we don't know that much about what makes economies grow rapidly and, particularly, about what keeps them growing.

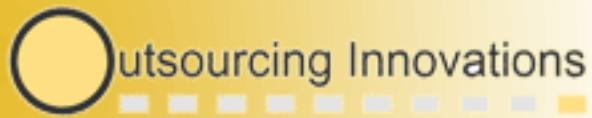
As Zaghera and his colleagues put it in an article in the World Bank's journal a couple of years ago: "The 1990s yielded many lessons. The most important perhaps is that our knowledge of economic growth is extremely incomplete."

And knowledge of what might drive growth in resource-rich economies such as SA's is, if anything, even more incomplete. Spence's team at the growth commission has identified 11 cases of very high and sustained growth — economies that have grown at more than 7% a year over more than two decades. The magic of 7% is that at this rate, income doubles every decade. The economies are Botswana, China, Hong Kong, Indonesia, Korea, Malaysia, Malta, Oman, Singapore, Taiwan and Thailand. With the exception of Botswana, almost all are human-resource rich but resource-poor, and Spence acknowledged last week that, so far, the commission didn't have a clear understanding of high-growth strategies for resource-rich countries. This is a bit limiting, surely, for South African policy makers looking to these folk for lessons on how to grow, though it is perhaps why the international experts are taking such an interest in our fledgling attempts at higher growth. And there is still plenty for SA to learn from the cases of high-speed growth. None has relied primarily on domestic demand: they have all leveraged global demand, growing their manufactured exports. They've also been characterised by very high rates of saving and investment — Spence notes infrastructure and education are the two areas of public investment that increase returns to private sector investment. And an inherent part of the growth process is mobility, where people move rapidly out of agriculture and other low-productivity sectors into newer higher productivity sectors — where they get paid more. That mobility, geographic and sectoral, is the essence of the growth process, says Spence, not just an ancillary effect. But it also means rising inequality.

It will either reassure or depress those concerned about rising levels of income inequality in SA that this is standard stuff in high-growth economies. Though there is clear evidence that sustained high growth reduces poverty significantly, it widens the income gap, at least initially. So in China, the incomes of the bottom 5% have grown 75% in the past decade while the incomes of the upper three income categories have almost tripled. But SA starts off with a degree of income inequality, and indeed of unemployment, that's particularly high. That raises a range of questions, about how to deal with the fallout in terms of those the growth process doesn't reach, but also about the politics of growth. Spence talks about the political challenge of building consensus for a growth process that may take a long time and involve high levels of savings and sacrifice. That may be easy in authoritarian China, where expectations, and inequality, are still relatively low. It is far more difficult in SA.

We will have to find our own way to do this. If we do pull off a successful growth strategy — and it's still a big if — it will provide rich case material for economists.

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