

Agenda

Changing Character of Industrial Development: what implications for growth, employment and income distribution?

HSRC Building, VCC, 134 Pretorius Street, Pretoria

May 21, 2007

<i>TIME</i>	<i>TOPIC</i>	<i>WHO</i>
8:30 – 9:00	tea	
Chair:		
9:00 – 9:20	Opening remarks: background to the questions & relevance for SA	Miriam Altman
Explaining the falling share of manufacturing employment globally		
9:20 – 10:00	Presentation Discussant	Gabriel Palma
10:00 – 10:45	Group discussion	
10:45 – 11:00	<i>Tea</i>	
Explaining Mexico's growth slowdown since 1982		
Chair:		
11:00– 11:45	Presentation Discussant	Jaime Ros
	Group discussion (30 min)	
11:45 – 12:30		
12:30 – 1:30	lunch	
Manufacturing and Services – Growth and Employment Creation in SA		
Chair:		
1:30– 2:00	Presentation	Fiona Tregenna
2:00 – 2:10	Discussant	Gabriel Palma
2:10 – 2:50	Group discussion	Group discussion
2:50 – 3:30	<i>Round-up discussion: implications for SA</i>	Miriam Altman

The changing character of industrial development and the implications for growth, employment, wages and income distribution.

There is growing global evidence that the contribution of manufacturing to employment is shrinking. In contrast, services industries are accounting for a growing share of employment and output, even in middle and low income economies. This public seminar will explore the evidence, the explanations for these shifts and what the implications might be for growth, employment and wage distribution. The seminar will also explore the impact these changes might have on the formulation of industrial and social policy for South Africa. We will also consider what might be the main employment-absorbing industries that could contribute to industrial diversification, productivity growth and employment?

The speakers include:

Explaining the falling share of manufacturing employment globally

Dr. Gabriel Palma

Dr. Palma presents evidence showing how “de-industrialisation”, where manufacturing becomes a smaller share of total employment, is taking place globally at ever lower levels of per capita income. Instead, services are becoming a growing share of total employment at earlier stages of development. This paper reviews the possible implications of this phenomenon in countries with growing manufacturing output.

Firstly, the relationship between these two variables is not stable over time. Moreover, there is convincing evidence that the original impulse for de-industrialisation was not the fact that some countries had already reached the level at which the curve begins to slope downward, but is instead closely related to a continuous fall over time of the actual inverted-U relationship for middle- and high-income countries. Furthermore, the 1980s combination of neo-liberal-politics and deflationary-monetarist-economics had a remarkably downward effect on the relationship between manufacturing employment and income per capita in industrialised economies.

Secondly, the regressions presented above have also identified a huge drop in the turning point of the regressions that relate manufacturing employment to per capita income since the 1980s. Since the beginning of that decade, there has been a dramatic reduction in the level of income per capita from which the downturn in manufacturing employment began: from US\$ 21,000 in 1980 to less than US\$ 10,000 in 1990 (both measured in 1985 international US dollars). This rapid lowering of the turning-point of the regressions since 1980 is crucial to an understanding of the evolving nature of de-industrialisation: where by the 1980s, no country -- not even the United States, the country with the highest income per capita in the sample -- had reached a level of income per capita anywhere near the inflection point of the inverted-U curve, by 1990 there were more than countries (including first-tier NICs) whose income per capita was beyond that critical point in the respective curve.

Thirdly, the data and analysis presented in this paper have allowed us to develop a new, more specific (and, it is to be hoped, more useful) way of looking at the Dutch Disease. There is a group of countries that exhibits a specific additional degree of de-industrialisation.

The former aimed at rolling back the welfare state, the radical transformation of industrial relations (in order to ‘discipline’ labour), and the creation of a new stream of rents (e.g., privatisations) in order to give a new impetus to capitalist accumulation (or, perhaps, just as part of the long awaited revenge of the rentier); the latter necessary for dealing with the newly discovered Friedman-type obsession with inflation.

This added de-industrialisation is associated either with a sudden surge in exports of primary commodities or the development of a successful service-exporting sector (mainly tourism or finance). From this perspective, the Dutch Disease is a process in which a country undergoes a change in its group of reference, from one corresponding to countries that need to generate a trade surplus in manufacturing to one corresponding to those able to generate a trade

surplus in primary commodities or services. When this is the case, the country experiencing this “disease” moves along two different paths of de-industrialisation: the first, which is common to the countries in the original group; and, in addition, a second surge of de-industrialisation resulting from the change in reference group. In this context, the Dutch Disease should only be regarded as the “excess” degree of deindustrialization associated with the latter movement.

Fourthly, this “disease” also spread to some Latin American countries; but the key issue in this case is that it was not brought on by the discovery of natural resources or the development of a service-exporting sector, but rather by a drastic switch in the economic policy regime.⁴² This was basically the result of a radical programme of trade and financial liberalisation, in the context of an overall process of economic reform and institutional change, leading to a sharp reversal of their (State-led) ISI industrialisation strategy. Brazil and the three Southern Cone countries with the highest incomes per capita (Argentina, Chile and Uruguay) were the Latin American countries that experienced the highest levels of deindustrialization while also being among the countries in the region that both had previously industrialised most rapidly and had implemented the most drastic policy reforms. From this point of view, the major difference in the consequences of neoliberal-politics and monetarist economics between Latin America and industrialized countries is that in the latter the crucial transformation took place in industrial relations, the welfare State, etc., while in the Latin American countries -- as they were hit at a much lower level of income per capita -- it also hampered their transition towards a more mature form of industrialization.

To begin with, ISI policies had achieved a degree of manufacturing employment that ‘normally’ corresponds to a situation in which the countries concerned seek to generate a trade surplus in manufacturing (although Latin American countries were never actually able to achieve this). In turn, a radical shift in the ‘policy regime’ (mostly implemented after the 1982 debt crisis) brought about the end of industrial and trade policies and, in particular, changes in relative prices, in real exchange rates, in the institutional framework of the economies, in the structure of property rights and in market incentives in general. This shift led them to abandon their industrialisation agenda, bringing them back to their ‘natural Ricardian position’; i.e., a position associated with comparative advantages more in accordance with their traditional resource endowment.

Fifthly, Finland, Sweden, Malaysia and, to a lesser extent, other Southeast Asian countries rich in natural resources (such as Thailand, Indonesia and the Philippines) prove that from the perspective of manufacturing employment, there is no such thing as the so-called “curse of natural resources”. It seems blatantly clear that countries rich in natural resources or high potential for developing strong export-services activities have sufficient degrees of freedom to allow them to follow trade and industrial policies to continue developing a strong manufacturing industry -- let alone implementing policies that would avoid the ‘Dutch Disease’.

However, as the Latin American experience in particular shows, it would seem that as globalisation progresses, there are fewer and fewer countries left with the political will to take advantage of such degrees of freedom and undertake policies that promote or maintain manufacturing capacity. This not only because the new international institutional order is rapidly trying to narrow down these degrees of freedom, but also because of the obvious role of fundamentalism in economic ideologies, and the fact that the newly develop neo-liberal structure of property rights has (at least so far) been perfectly capable of generating alternative massive (non-manufacturing) rents from which domestic political and economic elites have been able to profit.

However, whether a process of structural change that includes ‘premature’ de-industrialisation can ever deliver rapid and sustainable economic growth is another matter altogether; so is the issue of whether the current ‘premature’ deindustrialization taking place in the Southern Cone of Latin America and in Brazil will turn out to be simply a paradigmatic case of policy-induced ‘uncreative destruction’.

Dr. Gabriel Palma of the Faculty of Economics at the University of Cambridge is well-known internationally for his influential work on the economic development of Latin America and East Asia and their integration within the World Economy. His work particularly focuses on the study of these economies from the point of view of their economic history, macroeconomics, international trade and international finance.

Explaining Mexico's Growth Slowdown since 1982

Prof Jaime Ros

Over the past two decades and a half, the pace of Mexico's economic development has suffered a severe slowdown compared to the historical record of the previous 40 years. Between 1982 and 2004, Mexico's GDP per capita has grown at an average rate of only 0.7 percent per year which compares very unfavorably with the historical record of 3.2 percent per year over the period 1940 to 1981. Even leaving aside the years from 1982 to 1989 — which were characterized by highly adverse external shocks, an acute macroeconomic instability and a continuous transfer of resources abroad (to cover the foreign debt service) in the context of a severe external credit rationing — economic growth has been wanting. This is particularly so in the context of global growth rates in most comparator economies and regions. Moreover, this growth slowdown took place despite substantial diversification in Mexico's trade profile: Mexico has integrated into the international economy as an exporter of not only oil but also of manufactures, both labor intensive (garment and assembly of electronic products) and of medium and high technological intensity (automobiles, metal mechanic industries). The share of manufactures in total exports increased from about 10 percent in 1980 to more than 80 percent in 2000

From 1990 to 2004, output per capita has expanded at an annual rate of 1.3 percent and this in the context of a strong volatility in the level of economic activity. This growth slowdown is particularly serious to the extent that it implies wasting the "demographic bonus" associated to the transition towards low rates of population growth in the context of a still very dynamic growth of the working age population. In these conditions, in which in other historical experiences one can observe an acceleration in the growth of per capita incomes, in the Mexican case what one observes is an increasing underemployment of the labor force and a deceleration in the growth of per capita incomes. Increasing underemployment took place as low productivity services became the main source of new employment over this period.

Prof Ros argues that the proximate determinant of Mexico's slow growth since the early 1980s is a reduced investment rate and that four factors are constraining investment: the low level of public investment (particularly in the area of infrastructure), an appreciated real exchange rate for most of the period since 1988, the dismantlement of industrial policy during the reform period, and the lack of banking finance. The first factor contributes directly to a slower rate of capital formation in the public sector and possibly also in the private sector. The second and third have affected private investment profitability particularly in the manufacturing sector where increasing returns to scale and externalities are located with deleterious effects on the process of economic development. The fourth has prevented the realization of potentially profitable investment projects.

Prof. Jaime Ros is Professor in the Department of Economics and Policy Studies and Faculty Fellow of the Kellogg Institute for International Studies at the University of Notre Dame in the US. His main research interests are development economics and growth theory, open economy macroeconomics and the stabilization and adjustment problems in Mexico and other Latin American countries. He draws on a wealth of research and international experience, particularly in Latin America.

Fiona Tregenna will present a paper on the manufacturing and services sectors in South Africa.

Dr. Miriam Altman, Executive Director, EGDI, HSRC will speak on the changing role of services in the SA economy and its implications for wages and income distribution.