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An Innovative and Globally Competitive Higher Education Sector is a Prerequisite for Radical Economic Transformation in South Africa

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Abstract

Radical economic transformation has come to mean many different things to many different people. In recent political discourse, the concept has been utilised to symbolise the government's commitment to fast-track changes in the structure of the economy, particularly from the perspective of revisiting the ownership of wealth and resources. When loosely used, the term somehow confers upon government the agency to ensure that the ownership structure of the economy should be transformed (radically) in a manner that changes the structure and pace of economic development and fulfils the aspirations of the National Development Plan. This paper argues that the idea of radicalised economic transformation is a contested one, because economic transformation can hardly be radicalised in the sense that is being communicated in the mainstream discourse. The transformation of any economy requires painstaking mechanical and systematic remodelling of certain push pillars within several sectors, of which the higher education sector is key. Radicalising the process of economic transformation in South Africa could hardly be achieved without radical steps to transform the role, contribution and output of the higher education sector. The construction of an economic development project that brings about sustainable, meaningful improvements would require much more than a rhetoric commitment to the romantic notion of radical economic transformation. It will require dealing with built-in weaknesses of the system and picking seed pillars with a potential to inject radical change into the broader economy. It is the key argument of this paper that radicalising the transformation of the higher education sector is the real prerequisite to radical economic transformation, especially when such transformation targets more than the racial profile of university staff to also focus on output, efficiency and global competitiveness.

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Introduction

Coming from a past filled with inequality and social injustice, South Africa is currently dealing with the apartheid legacies of poverty, unemployment and inequality. Its unemployment rate of 26% (according to the narrower definition of who is unemployed, and 40% if one includes discouraged workers) is one of the highest rates of unemployment in the world. This poor record on employment represents not only an economic tragedy but poses a significant threat to the stability and eventual health of the young South African democracy (Rodrik 2006, 2). Despite an emphasis on the implementation of growth-focused economic policies, South Africa continues to record slow economic growth averaging about 3% since 1994, which is considerably lower than the 5.4% envisioned in the National Development Plan. The country's economy and growth trajectory are likely to shrink further, following recent decisions by a number of rating agencies (including Standard and Poor [S&P] and Fitch) to downgrade the sovereign debt to junk status, or sub-investment grade; thereby increasing the cost of external borrowing and further hampering efforts at furthering the growth of the economy.

Amidst this precarious economic performance over the last two decades since the new democratic dispensation, the political rhetoric amongst certain segments of the population has not ceased to articulate a need for the country to embark upon "radical economic transformation," a notion that typically communicates the imperative of increasing the participation of previously disadvantaged segments of the population in the mainstream economy. This economic re-ordering is often articulated alongside the definition of other policy priorities like job creation, enhancing the quality of education, improving the public health sector and health outcomes, and investing in rural development, amidst other priorities. Policy priorities of this nature have been frequently documented in key policy documents like the Reconstruction and Development Programme (RDP), the Growth Employment and Redistribution Programme (GEAR), the New Growth Path, the Accelerated and Shared Growth Initiative (ASGISA), and the National Development Plan (NDP), which all place particular emphasis on radical economic transformation.

Building upon the assumption that the challenges being faced in the country have been well identified, this paper seeks to establish whether the NDP's emphasis on radical economic transformation represents the adoption of a new policy orientation and a significant departure from earlier policy documents like RDP, GEAR and ASGISA, or if it is simply the continuity of old policy choices rebranded with a new name. What exactly is "radical economic transformation," as articulated within South Africa's policy documents and political discourse? Can economic transformation be radicalised (or the structural transformation of the economy be accelerated) within the context of regular economic development processes? What would it entail for a country like South Africa to meet the aspirations of radical economic transformation, given its own contextual realities? In attempting to explore these questions, this paper argues that long-term economic (structural) transformation is a mechanical process that is driven by knowledge production (innovation and technology intensification) as per the predictions of endogenous growth models. It builds upon this argument to suggest that the pursuit of knowledge generation and skills acquisition should be a prerequisite for effective economic (structural) transformation, which—if guided by effective policies to benefit a certain target segment of the population—can result in the attainment of the desired outcomes of radical economic transformation. It makes the argument that this can be accomplished through a strategic investment into the education sector with the intention of transforming South Africa into a knowledge and innovation hub for global production and exports. This would require the creation of “Special Education Zones” in reminiscence of the common practice of creating “Special Economic Zones” (SEZs). It, therefore, makes the argument that improving the output of the higher education sector by taking steps to make the sector globally competitive in its capacity to innovate and produce products for the global market, is a more sustainable way of attaining the redistributive objectives of radical economic transformation; rather than creating the impression and expectation that this can be accomplished through the mere adoption of redistributive policies that reallocate ownership of certain segments of the economy as currently configured. It thus argues that the construction of an economic development project that increases the participation of the previously disadvantaged segments of the population—and brings about meaningful improvements in living standards that would be sustainable into the future—would require much more than a rhetoric commitment to the romantic notion of radical economic transformation. A good start would be by an investment in the higher education sector to create the right set of incentives to improve the throughput and output of the higher education sector, by focusing on efficiency and global competitiveness.

The paper is divided into six subsections. Section one examines the evolution of economic policy in South Africa since 1994, with a closer look at the different economic programmes. The second section examines the notion of radical economic transformation to determine whether it represents policy continuity or the establishment of a new policy orientation. This is followed in the third instance by exploring the role of knowledge in economic growth and economic development. The final section makes a case for enhancing the contribution of the higher education sector in promoting radical economic transformation. The article concludes with a summary of the main arguments.

Policy Evolution in South Africa since 1994

The objective of deconstructing the notion of “radical economic transformation” as an articulated policy position is to attempt to understand what it actually means in terms of the policy choices that the government would opt to implement in the days and years that lay ahead of it. As a phrase that has come to mean so many things to so many different people, it is important to make a distinction between a mere phrase that suggests that the government intends to do a few things differently, and the series of actions that may be undertaken to prove that it *is* actually doing things differently. In the pursuit of such an endeavour, a key question to ask would be one of establishing whether the pursuit of radical economic transformation—as recently articulated by different actors within the South African policy space—actually signifies a change in direction or policy options and choices. What would a "radically economically transformed South African economy" look like in light of the current policy options being shaped as the building blocks of transformation? Is there anything within the current policy approaches that suggests that we are on a different course, or is the notion of radical economic transformation just essential policy continuity with a different flavour and emphasis?

Our sense is that radical economic transformation does not represent a radical departure from the policy options and programmes implemented since the dawn of the new democracy. These policy positions have shared a lot of things in common and the popularity of the notion of radical economic transformation today is only meant to signal a desire to do certain things differently, with the hope that this will yield certain results faster than may have been the case in the past. It is possible to identify the commonality of the policy choices adopted since the dawn of democracy by briefly presenting the main components of their tenets as a prelude to deconstructing the notion of radical economic transformation as policy continuity. From the Reconstruction and Development Programme (RDP), through the Growth, Employment and Redistribution Programme (GEAR), to the Accelerated and Shared Growth Initiative (ASGISA) and the New Growth Path and current articulations around radical economic transformation, the common trend has been the pursuit of growth with varying emphasis on how to pursue this growth and let its benefits accrue and change the lives of average citizens of the country; especially the previously disadvantaged populations. This can be gathered from a brief presentation of what each of these programmes represented.

The Reconstruction and Development Programme (RDP) and the Growth, Employment and Redistribution (GEAR) Programme

Prior to 1994, South Africa's history had been characterised by colonialism, racism, apartheid, sexism and repressive labour policies. The result was that poverty and degradation co-existed within modern cities and a developed mining, industrial and commercial infrastructure. Income distribution was largely skewed along racial lines, with South Africa ranking amongst one of the most unequal societies in the world. It was, therefore, obvious to the 1994 democratically elected government that no political democracy would survive and flourish if the mass of the people remained in poverty, without land, and with no tangible prospects for a better life. This is what has now been defined as the addressing the triple challenge of "Poverty, Unemployment and Inequality." Therefore, attacking poverty, unemployment and inequality has been on the agenda of the government from the dawn of democracy and remains a high priority in all policy choices and decisions. This objective was packaged in the government's RDP, described as "An integrated and sustainable programme for the people, which provides peace and security for all and builds the nation, while linking reconstruction and development and deepening democracy."[1]

As an integrated socio-economic framework, "RDP aimed at empowering people so that they could become self-reliant in the long run, building local capacity through development support, initiating development programmes and projects on a participatory basis as well as addressing the past injustices caused by both apartheid and colonialism" (Davids, Theron, and Maphunye 2005, 43). In opting for an integrated and sustainable programme, the government was acknowledging that the legacy of apartheid could not be overcome with piecemeal and uncoordinated policies. RDP did strive to come up with strategies to harness all the nation's resources in a coherent and purposeful effort that could be sustained into the future. This approach was perceived as important for nation building and as a means of integrating growth, development, reconstruction, redistribution and reconciliation into a unified programme. In linking reconstruction and development, the RDP was departing from the commonly held view that growth and development, or growth and redistribution, are processes that contradict each other. In the mainstream view, growth—the measurable increase in the output of the modern industrial economy—is commonly seen as a priority that must precede development, while development is portrayed as a marginal effort of redistribution to areas of urban and rural poverty. In this view, development is a deduction from growth.

RDP acknowledged the pursuit of growth, defined as an increase in output, as a basic goal, but emphasised further that the crucial concerns when considering reconstruction and development have to do with where growth occurs; how sustainable it is; how it is distributed; the degree to which it contributes to building long-term productive capacity and human resource development; and the impact it has on the environment. It can thus be said that the government (post the 1994 election victory) outlined a social welfare programme that was aimed at improving the lives of the largest possible number of people by providing them with basic conditions for a decent living and effective participation within the economy. This policy stance was articulated around six distinct arms, all aimed at adopting a specific approach deemed necessary for the nation and economy at the time. RDP was thus an attempt to devise a set of socio-economic and political practices that would transform South Africa into a more just and equal society. It aimed at reordering politics, the economy and society, with emphasis on five sub programmes, namely: meeting basic needs, developing human resources, building the economy, democratising the state, and implementing the RDP (Marais 1998, 177).

Although deemed comprehensive, RDP was criticised as being too broad and attempting to be "all things to all people" (Luiz 2002, 595). It thus ended up sounding more like a "wish-list"; though it acted like a useful vision and focused government's attention on building its capacity to realise its ambitions. It was, however, not a coherent growth strategy since it ignored macroeconomic fundamentals. It is worth mentioning that "the

1 RDP White Paper.

comprehensiveness of the RDP removed the arbitrariness from government actions, and acted as a yardstick to assess government's accomplishments" (Luiz 2002, 596). There were a number of reasons for the failure of RDP, amongst which were issues relating to conceptual uncertainties (meaning different things to different people), improper financial planning for the funding of the programme, institutional uncertainties, ideological struggles, and implementation failures. It was, therefore, not surprising that the government soon replaced it with another policy stance articulating its desire to consolidate the successes of the RDP while improving upon its weaknesses and correcting the failures. Thus, in June of 1996, another policy was put in place by the government, which it called the "Growth, Employment and Redistribution" (GEAR) strategy. This was an integrated economic strategy for rebuilding and restructuring the economy in keeping with the goals set in the Reconstruction and Development Programme.

After the failure of RDP to deliver on its promises, it became evident to the government that maintaining the policy approach of RDP would not get it to attain its set objectives of welfare improvement for the people. In adopting the GEAR strategy, the government was opting to reduce poverty and inequality via a surge in economic growth. The economic growth engine for GEAR was to take the format of "a demand stimulus led by a rapid expansion in private sector investment" (Streak 2004, 271). The text of the document further presented growth in fixed investment and exports as the engines of growth. Thus, as a policy document, "GEAR was based on standard 'neoliberal' economic principles, with key policies being deficit reduction, low inflation, trade liberalisation, privatisation, tax cuts and deregulation" (Schneider 2003, 43). Its point of departure was the belief that sustained growth on a higher plane required transformation towards a competitive, outward-oriented economy. However, to fully initiate this strategy, government had to take a number of factors into consideration, including the following:

- Simulations based on diverse econometric models had identified that a growth rate of 3% per annum would be attained, but would be inadequate to set the economy on its desired growth and development path.
- A 3% growth rate, without significant improvements in labour absorption coefficients, would not have resolved the pressing problem of unemployment (it would not have created annual jobs in excess of 100 000 in five years, leaving the economy vulnerable to a 5% rise in unemployment to a rate of about 37% in 2000).
- Limited growth would have further limited the scope for increased public spending on social services.
- The balance of payment was perceived to constitute a structural barrier to accelerated growth, causing the economy to be dependent upon imported capital inflows that made the economy and the balance of payment too

reliant on short-term reversible flows, and consequently high interest rates.

- Prevalent exchange rate instability presented a further complication, with the possible danger of further capital outflow and balance of payment crises.
- It was recognised that the burden of the short-term adjustment will fall on monetary policy and that an economic contraction to reduce import demand, would be likely.

It was, therefore, deemed necessary that an integrated strategy should be formulated that would provide a broad bridge between the prevalent constrained economic environment and improved growth and employment performance in the period up to 2000.

Conservative fiscal policy in the form of budget deficit reduction and restrictive monetary policy was taken to be the most important intervention required to facilitate growth and employment. These jointly represented measures that would lower interest rates, build confidence and ignite the private sector investment engine (Streak 2004, 271). With the prevalent economic conditions, the government could not consider a mere expansionary fiscal strategy, since it would have given a short-term boost to growth, while risking reproducing the historical pattern of cyclical growth and decline (Department of Finance [DOF] 1996, 3). In addition, an increased growth above 3% would have been choked off by a rising current account deficit, upward pressure on real wages and curtailment of investment plans.

This left the government with the conclusion that without attention to more deep-rooted reforms, there was no possibility of sustainable accelerated growth. Envisaging that growth would lead to poverty and inequality reduction, "the government targeted a job creation process that rested on three pillars: economic growth, institutional reform in the labour market and government programmes" (Streak 2004, 273). These options had to be packaged in a carefully coordinated integrated strategy that addressed the short-term concerns of the economy, while pursuing the objective of strengthening the competitive capacity of the economy in the long term.

Within the GEAR strategy, the two-development outcomes: poverty and inequality reduction, were dependent upon "a virtuous circle of private investment-led growth and increased labour market flexibility that would reduce poverty via employment creation" (Streak 2004, 273). It was believed employment would provide a powerful vehicle for redistribution and would be supplemented by government housing, water supply and sanitation, health, education, welfare and social security services. It was the government's conviction that these measures would establish a stable and competitive environment for significantly improved export and investment growth (DOF 1996, 5).

GEAR, as a strategy, evidently adopted a conservative, orthodox or neoliberal economic approach "based on stabilisation, a mild form of structural adjustment, and efforts at labour market flexibility, trusting that this investor friendly climate will send the right signals to the market and thereby boost investor confidence" (Luiz 2002, 597). This was expected to result in growth in output and expansion of employment, together with rising exports as the economy became more competitive and income distribution would improve as growth trickled down in the form of new jobs. It succeeded to contain inflation within its set targets and contained the real interest rate due to its restrictive fiscal and monetary policies. However, it failed to attain its developmental objectives of poverty and inequality reduction through job creation. GEAR failed to attain its objective of creating over 400 000 jobs; there were rather significant job losses since its adoption in 1996. The strategy's inability to create jobs implied a failure to redistribute income to the previously disadvantaged population. Thus, poverty was rather increased than eradicated. Some cynics viewed the process as rather being a redistribution of wealth from the poor to the rich and the fostering of inequality through the creation of "a rich black elite." Schneider (2003, 44) notes that "although black incomes as a share of GDP rose from 30% to 36% from 1991 to 1996, almost all of this increase occurred among the top 10% of black earners while poorer blacks actually experienced a decline in income."

A number of reasons have been forwarded to explain the failure of GEAR as a strategy. The most significant of these was its too great reliance on private sector investment to generate growth in response to budget deficit reduction; and also, its attempt to reduce poverty and inequality via employment creation (Streak 2004, 286). It was correct in its assumption that employment creation could play a key role in poverty reduction, but failed to see that such a strategy needed careful implementation in the South African setting. A consideration of the trend of capital intensity of the economy since the 1970s, and the causes of unemployment, would have shown that a heavy reliance on private investment-led growth to reduce poverty via employment would be problematic.

The link between economic growth and poverty reduction through employment creation was further weakened by the mismatch between the skills of the poor and the needs of industry. This meant that the labour demand that was generated by economic growth and private sector investments tended to do little in the way of creating jobs for the millions of unskilled poor, thus perpetuating the problem of poverty and entrenching the patterns of inequality. The structural nature of unemployment (the mismatch between the supply and the demand for labour) raised the importance of skills development as a means of reducing unemployment (Streak 2004, 281). This further made a case for extensive government-led job creation and other income transfer programmes to reduce poverty and inequality in an active but temporary manner, while the appropriate skills were being developed that could be absorbed in a growing and expanding South African economy.

GEAR could, on the other hand, be considered a successful programme in the sense that it had its macroeconomic fundamentals right and set the stage for the government to deliver on its promises of poverty reduction and employment creation. It increased the economy’s prospect for development in the future because its deficit reduction programme released resources, making them available for expenditure on poverty reduction programmes. Furthermore, its public sector reform programmes improved the government’s capacity to deliver services efficiently, while liberalisation and sound macroeconomic policies reduced production costs (Streak 2004, 286). The failure to attain its developmental objectives and the realisation that the government needed to do more through the state apparatus to stimulate employment and the redistribution of income, motivated government policy in the post-GEAR era. This culminated in the elaboration of the “Accelerated and Shared Growth Initiative” (ASGISA) in February of 2006.

Accelerated and Shared Growth Initiative and the New Growth Path

ASGISA marked the era of greater government involvement in the economy to accompany its growth strategies with activities that facilitated redistribution and attained other socio-economic objectives. With this initiative, the government revisited an objective it had set for itself in 2004 (as outlined in the “Accelerated and Shared Growth Initiative South Africa” (ASGISA 2006) to halve poverty and unemployment by 2014. ASGISA was rolled out as a vision for development that is vigorous and inclusive with diverse products and services, more value added to products and services and a reduction in costs of production and distribution. A sustainable growth rate of 6% was envisaged within a shared growth framework. This was adopted through a growth diagnosis framework that sought to identify binding constraints to the attainment of the government’s objectives. While acknowledging its uniqueness as an economy, the government identified the following as binding constraints to the attainment of its growth and development efforts:

- The volatility and level of the currency: deterring investors in tradable goods and services outside the commodity sector.
- The cost efficiency and capacity of the national logistics system: making the price of conveying goods and services over distances higher than should be, given a considerable concentration of production inland.
- The shortage of suitably skilled labour amplified by the cost effects on labour resulting from apartheid-spatial patterns.
- Barriers to entry, limited competition and limited new investment opportunities.
- Regulatory environment and the burden on small and medium businesses.
- Deficiencies in the state organisation, capacity and leadership: identifying weaknesses in the way government is organised and the insufficiently decisive leadership in policy development and implementation that all negatively impact on the country’s growth potential.

In light of the above, ASGISA proposed a series of decisive interventions to eliminate these binding constraints, organised into six different categories:

i) **Macroeconomic issues**. With the government setting out to find strategies that would reduce the volatility and overvaluation of the currency and to ensure that the inflation-targeting regime in association with its fiscal and monetary policy can work together to produce sustained and shared growth. A further area of focus is an improvement in budgeting and expenditure management processes by the government.

ii) **Infrastructure programmes**: Plans to raise public sector investment to 8% of GDP from the current level of about 6%, with 40% of this expenditure going to public enterprises (Eskom R80bn, TransnetR40bn) in order to improve the availability and reliability of infrastructure services in response to rapidly growing demand.

iii) **Sector investment strategies (Industrial strategies):** With the identification of labour-intensive industries that are rapidly growing sectors worldwide being "business process outsourcing" (BPO) and "tourism as special priority areas" with bio fuels as a third area of focus. With government anticipating a phase of growth in the tourism industry to a contribution to GDP of about 12% and simultaneously increasing employment by up to 400 000, all these with an investment in marketing, air access, safety and skills development.

iv) **Skills and Education initiatives:** With measures to address the skills challenge in the education sphere, including the QUIDS UP programme aimed at achieving high levels of literacy and numeracy in lower grades. An upgraded career guidance programme and a huge upgrading of further education and training colleges amongst other initiatives. A noteworthy initiative for further skills acquisition was the creation of a new institution, the "Joint Initiative for Skills acquisition" (JIPSA) with a mandate to identify urgent skills needs and quick and effective solutions that may include identifying training needs, bringing back retirees or nationals from abroad, as well as facilitating the immigration of skilled individuals where deemed necessary.

v) **Second economy interventions**: With interventions that directly address the deep-seated inequality and targeting the marginalised poor in a bid to bridge the gap between the first and second economy by using the leverage of the first economy to reduce the second. Leveraging the increased level of public expenditure, especially investment expenditure, to develop small business and broad-based empowerment and addressing such issues like access to finance and preferential procurement amongst other efforts to empower the underprivileged with a special emphasis on job creation of youths and women.

vi) **Public administration issues:** With the option of making use of existing institutions to carry out new functions and responsibilities, given the understanding that institutional interventions are costly and should be minimised where possible. Also, the deployment of experienced professionals and managers to local governments to improve project development implementation and maintenance capabilities, amongst other policy initiatives.

Compared to the transition from RDP to GEAR, the movement from GEAR to ASGISA could not really be described as a change in the government's policy ideology. It represented only a different emphasis on the chosen approach to the implementation of a growth strategy. It gave more agency to government actions, while maintaining the competitiveness of the economy and its attractiveness to foreign investments. It was during this season that the notion of the developmental state was popularised, which was meant to describe the establishment of an economy that remained competitive and attractive to foreign investment through robust macroeconomic management, while pursuing its developmental objectives through more targeted government-led investment initiatives like the infrastructure investment projects, leveraging public procurement and emphasising second economy interventions.

The same thrust and emphasis on growth were adopted for the New Growth Path, the only caveat being that this new policy document placed employment creation at the centre of policy action. The New Growth Path aims to grow employment by five million jobs by 2020, which would result in over half of all working-age South Africans having paid employment and would lead to a drop in "narrow unemployment" by 10 percentage points from 25% currently to around 15%. This goal is to be accomplished through the targeted actions of identified job drivers—defined as areas that have the potential of creating employment on a large scale. The two key variables that are meant to affect the target of five million new jobs are: 1) the rate of economic growth; and 2) the employment intensity of that growth—that is, the rate of growth in employment relative to the rate of growth in GDP. By adopting this approach, the policy stance was aimed at maximising growth while ensuring that it generated more employment, mostly in the private sector. The jobs drivers identified by this policy document included:

- **Substantial public investment in infrastructure,** both to create employment directly, in construction, operation and maintenance as well as the production of inputs, and indirectly by improving efficiency across the economy.
- **Targeting more labour-absorbing activities** across the main economic sectors—the agricultural and mining value chains, manufacturing and services.
- **Taking advantage of new opportunities in the knowledge** and green economies.
- **Leveraging social capital in the social economy** and the public services.
- **Fostering rural development and regional integration**.

With these growth drivers, the NGP aims to promote employment creation in the following sectors: infrastructure; the agricultural value chain; the mining value chain;

the green economy; manufacturing sectors, which are included in IPAP2; and tourism and certain high-level services. These policy objectives have been combined with previous initiatives and consolidated into the National Development Plan, described as the long-term developmental vision for the country.

More than two decades of post-apartheid policy formulation and implementation have been translated to about five major policy documents and a variety of proposals of different approaches to be adopted to address the triple challenge of poverty, unemployment and inequality. The emphasis on growing the economy within a neoliberal paradigm has existed since GEAR, with the subsequent programmes qualifying the desired growth to be one that leads to employment creation. With such a comprehensive elaboration of policy options to address the various challenges identified as plaguing the country, it would be difficult for the new emphasis on radical economic transformation to bring a completely new and innovative proposal to the table.

Radical Economic Transformation: Policy Innovation or Continuity?

The idea of radical economic transformation has come to mean many different things to many different people. In the recent political discourse, it is a concept that has been utilised to symbolise the government's commitment to fast track changes in the structure of the economy, particularly from the perspective of revisiting the ownership of wealth and resources in the country. This notion seems to have been born out of increasing frustration with the fact that 23 years of post-apartheid policy formulation and implementation have not brought any significant change to the material conditions and experiential realities of the majority of the poor in the country. There have been no significant dents in the rates of poverty; no major redress of the unemployment challenge, and the levels of inequality seem to be on the rise. Radical economic transformation is consequently articulated as an intervention that would result in a significant transfer of wealth from the rich to the poor through a combination of policies that entail a change in the ownership structure of wealth in the economy. The notion, when loosely used, somehow confers upon the government the agency to ensure that the ownership structure of the economy should change (be transformed radically) in a manner that fulfils the aspirations of the National Development Plan. These views were recently articulated at the ANC's 5th National Policy Conference, held in June of 2017, where a discussion document on economic transformation was prepared and presented. This discussion document outlined proposed strategies for strengthening the programme of radical economic transformation by adopting a three-pronged approach focusing on "employment creation, economic growth and structural changes." This is how the discussion document articulates the need for radical economic transformation:

> Primarily, radical economic transformation is about fundamentally changing the structure of South Africa's economy from an exploitative exporter of raw materials, to one which is based on beneficiation and manufacturing, in which our people's full potential can be realised. In addition to ensuring increased economic participation by black people in the commanding heights of the economy, radical economic

> transformation must have a mass character. A clear objective of radical economic transformation must be to reduce racial, gender and class inequalities in South Africa through ensuring more equity with regards to incomes, ownership of assets and access to economic opportunities. (ANC 2017)

This presentation of the concept of economic transformation highlights a number of development objectives that the economy needs to attain. It broadly articulates the desire to grow the economy, promote the transformation of certain sectors of the economy, and increase the economic participation of previously disadvantaged members of the South African society. These are the same objectives that have been articulated in the earlier highlighted policy documents and programmes with their emphasis on growth and specific actions and activities by the government to ensure that some benefits accrue to the previously disadvantaged population group. It expresses the same growth objectives, the same emphasis on addressing unemployment, poverty and inequality and the same extended mandate and responsibility given to the government to be the driver responsible for spreading the gains to the broader society. As stated by President Zuma during the 2017 State of the Nation address, by radical socio-economic transformation "we mean fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy in favour of all South Africans, especially the poor, the majority of whom are African and female" (The Presidency 2017).

In order to advance economic transformation, the ruling party in its subsequent policy conferences had essentially reiterated its commitment to a number of its identified policy positions, programmes and documents drawn up recently to point to the various intended avenues of intervention. Drawing upon its National Development Plan, the New Growth Path Document and the Industrial Policy Action Plan, the South African government's approach to attaining economic transformation aims to produce the following:

i) To promote growth and development and eradicate the triple scourge of unemployment, poverty and inequality.

ii) To increase state-led infrastructure investment aimed at massively improving social and economic infrastructure, with an emphasis on the use of local content and local companies.

iii) To give effect to the National Development Plan (NDP), the New Growth Path and the Industrial Policy Action Plan with the aim of stimulating growth, employment and the re-industrialisation of the South African economy.

iv) To transform the mining sector with the aim of widening the benefits of South Africa's abundance of minerals, including the creation of safe and decent work on the mines as well as benefits for near-mine local communities, as well as give particular focus to mineral beneficiation.

v) To promote youth employment, small business and co-operatives.

vi) To build a developmental state with the technical and political capacity to lead development and transform the economy.

vii) To maintain a supportive macroeconomic policy framework, oriented towards reconstruction, growth and development, and informed by the imperatives of sustainability and long-run macroeconomic stability. (ANC 2017)

These policy objectives represent the essential components of the economic transformation that the ANC government wishes to bring about for the country. The actionable points contained in these different identified objectives can broadly be separated into two groups, group one being a list of things the government intends to see happening to the economy, and group two a number of suggestions about the identified interventions that would bring about that change. With respect to group one of the desired changes, these are mainly focused on addressing the triple challenge of poverty, unemployment and inequality. On poverty and unemployment, employment creation through the growth of the economy and specific government interventions are the elements of agency looked upon to bring about change.

In terms of policy clarity, these previous programmes successfully articulated and presented a lucid vision of the actions that would be undertaken to address poverty, inequality and unemployment through inclusive employment creating growth. As far as the inclusivity of the growth is concerned, the major objective seems to be to increase the economic participation of previously disadvantaged segments of the population through the provision of various incentive schemes and programmes. With regards to the source of the growth and its long-term sustainability, the manufacturing sector is earmarked as a major driver as well as opportunities to turn around the challenges of the mining sector through increased black ownership and the pursuit of beneficiation and value addition. The only thing that seems to sound radical about this economic transformation discussion is the fact that there seems to be a drive to change the structure and ownership within the economy in a more intentional manner. It is hardly an ideological deviation from the neoliberal orthodoxy of policy formulation and implementation. The Industrial Policy Action Plan, for example, promotes the pursuit of a developmental model focused on radical economic transformation and social inclusion, the diversifying of the economy and provision of strong support for value-added manufacturing. It also intends to promote the building of regional investment, trade and industrial development integration with an emphasis on Research and Development (R&D) and movement towards a knowledge economy. In terms of the partnership to accomplish these goals it also has the objective of working with the private sector to prepare for and adapt to the challenges in digitised production and logistics associated with the "4th Industrial Revolution."

However, beneficiation, manufacturing and the increase of economic participation carry with them fundamental capacity assumptions that cannot be ignored if the objective of radical economic transformation, as thus defined, is to be accomplished. This includes the economy's absorption capacity of the various intervention programmes as well as the implementation capacity of the various responsible government departments. The absorption capacity of government interventions, especially of the nature targeted at expanding existing sectors of the economy in which there are already economic activities, needs to be accompanied by more decisive measures to increase the participation of the majority in those existing sectors. If this is not done, the only thing that will be radical about these approaches to economic transformation would be the enrichment of those who already have existing capacities to benefit from these programmes. From a black economic empowerment point of view, this will result in the creation of a new generation of black capitalist, but in very minimal numbers that would only contribute to entrench the inequality and do very little to fight the scourge of poverty that affects the majority of the population. This is why the output of the education sector is important to increase the number people that can participate in the growth and expansion of the economy and can also benefit from the various programmes that are being rolled out by the different government departments. The reality of the 4th Industrial Revolution is the drive towards the creation of a knowledge economy, and for this to happen and for South Africa to be on course and remain competitive with the rest of the world, it needs to pay special attention to the output of the higher education sector; a sector which has built-in challenges of its own.

Looking back and taking stock of the efforts the government has made to identify various policy options, there is no doubt that it has explored the major avenues through which transformation can come to the country. The only obstacle standing between these policy aspirations and their fulfilment is the required capacity to execute the programmes that have been identified as being crucial to lift the economy. The tragedy of a jobless growth during the implementation of GEAR and ASGISA and the share volume of resources pumped into these various government interventions (like the IPAP and drive to create a new group of black industrialists) suggest that the binding constraint to the upliftment of the economy is not available resources, but lack of knowledge and skills that speak to the two earlier mentioned capacity constraints; that is the implementation capacity of government departments (which is skills and knowledge dependent) and the absorption capacity of the economy (which for many programmes is only accessible to those already involved in the sectors and who possess the required skills). The lack of skills and the employability of the unemployed is the major limitation to increased participation from the previously disadvantaged groups of the population, within the current context and state of the economy. The standard economic argument of increased demand for and supply of labour that will come with a relaxation of the labour regulations and freedom to hire and fire with less "unionisation," is a proposal that has not been tested as yet in South Africa. It is, however, highly unlikely to succeed because the thrust of the 4th Industrial Revolution and the sectoral contribution to the GDP of the country, which largely comes from the tertiary/service sector, are all intensive in the usage of skilled labour.

Besides, the drive to automation and participation in the services sector—that is a major contributor to South Africa's GDP—requires a minimal amount of skills to get the jobs that are being offered by the expanding sectors currently benefiting from government intervention and the health and well-being of the economy. This is the reason behind the employment focus of the New Growth Path and the incentives created to encourage employment creation as an express objective. These objectives are, however, not always attained because of the absorption capacity of the economy of the various programmes and challenges with government's implementation capacity. The result of this is that there will be a lag between the identification of suitable policy positions and their materialisation on the ground, because policy interventions typically take time to be reflected on the ground. One may ask if there is then a way of fast tracking these processes and whether radical economic transformation is the answer, as currently proposed by the ANC government.

Our sense is that there can be no short-term policy interventions that would significantly shift the ownership structure of the economy without being accompanied by disruptions that may destabilise the economy. The key would be to develop the capacity to take over as part of a long-term vision of growth and empowerment. Short-term solutions are limited because of the skills and knowledge requirements that come with some of the proposed intervention measures. For example, it requires technical skills and knowledge to derive benefits from the oceans economy, and to massif such benefits in the short to medium term would mean "massifying" the required knowledge requirements for that particular sector. The same argument would apply for movement up the agricultural value chain and for the beneficiation of minerals or for the creation of employment intensive manufacturing. These are all sectors that would require a certain technological and skills endowment to kick off and would require sufficient market access to be profitable and sustainable in the long run. Gaining and maintaining a share of the market would require producing these goods in a competitive manner, which in itself requires that the production technology be domestically owned and gauged at a level that is globally competitive. Put differently, to be able to beneficiate minerals and climb up the value chain, as desirable as it sounds, requires the knowledge and technology expertise to do so, in a manner that can compete with other produces that already have the knowledge and technology. That is why, as desirable as each of these initiatives sound, they cannot be effectively implemented without a deliberate focus being given to the acquisition of the relevant knowledge and skill to do so. Consequently, increasing the economic participation of the previously disadvantaged segments of the populations will not be achieved without deliberate (radical) efforts to ensure that they acquire the relevant skills to participate in a modern and globally competitive economy that has ambitions to be ahead of the 4th Industrial Revolution (automation and technological revolution). In essence, there can be no radical economic transformation that is promoted as an effective short-term policy objective, because the process of skills acquisition of the dimension required for the kind of economy that South Africa wants to become, cannot be attained within the short-term electoral cycle of any specific leader—no matter how gifted or talented they are. Radical economic transformation can, therefore, not be a short-term policy goal of the kind infused into an electoral policy document because the process of economic transformation—of the kind presented by the ANC—cannot be accomplished by short-term shocks to the economy through the adoption of a new policy stance. Economic transformation can only be a medium to longer goal that begins by getting the fundamentals correct, not just the macroeconomic fundamentals and adoption of the right policies, but the consistency and resolve of implementation to lift the economy and place it unto a path of sustainable long-term development. For an economy that is open and integrated into the rest of the world, with an independent central bank and a flexible currency, it does not look feasible for South Africa to abandon its neo-liberal policy stances in exchange for an alternative that comes with an uncertain future. It just needs to identify the sources of long-term growth and invest intentionally in that direction. It is the contention of this paper that such an emphasis on increasing and improving the output of the higher education sector is undoubtedly the one way of going about this.

The Role of Knowledge in Economic Growth and Development

To understand the theoretical interaction between knowledge, economic growth and development, one has to make recourse to portions of growth theory that have largely sought to explain the divergence in income levels and standards of living across and within nations. Understanding why countries experience such sharp divergences in long-term growth rates is important in explaining why countries differ in their levels of development and standards of living (Barro and Sala-I-Martin 1995, 4). Economic theory largely emphasises the notion that "the total output of an economy is a function of its resource endowments (labour, physical capital, human capital and others) and the productivity with which these endowments are developed to produce a flow of goods and services" (Rodrik 2003, 4). The contribution of the higher education output of every country in this matrix is twofold; firstly, through a direct feed into the labour pool via human capital development, and secondly through the improvement of the productivity of labour.

Seen from this perspective, the contribution of knowledge to a country's growth and economic development is leveraged through its resource endowments and efficiency in usage. This, in "economic terms," has to do with "capital accumulation" and an "increase total factor productivity." Both are important and indispensable elements for growth and development across nations, and both benefit directly from the contribution of each country's higher education sector through the generation of knowledge and a contribution to the production of a skilled labour force. This belief in the importance of capital for the growth and development process dates back to classical economists like Adam Smith, according to whom the growth of output and living standards in a country depended on investment and capital accumulation (Thirlwall 2006, 123). Pioneer classical economists such as Adam Smith (1779); Thomas Malthus (1798); and David Ricardo (1817) all emphasised the importance of expanding the quantity of basic factors of production, (capital, labour and land) in achieving growth and development.

A major weakness of these classical theories was that they limited a nation's development and economic growth to its supply of land and labour, and did not take into consideration the contribution that improvements in technology could make to bring about greater efficiency (Bende-Nabende 2002, 109). With time, scientific and technological discoveries that led to greater efficiencies in production and greater returns on inputs used in the production process, largely proved the inadequacies of these theories. Addressing the limitations of "classical growth theories," the neo-classical economic models highlighted the contribution of technical progress to economic growth, over and above the contribution from expanding quantities of productive factors (Bende-Nabende 2002, 111). This body of theory stressed the role that could be played by improvements in the organisation of production and technical progress in determining the final output in the production process. Technical progress or improved efficiency in the usage of resources makes a significant difference to growth, as investments in additional inputs do. However, these neoclassical economic theories failed to specify the source of technical progress, thereby leaving an important determinant of economic growth as exogenous to their models (Bende-Nabende 2002, 111).

The "exogeneity" of technical progress as a major deficiency in neoclassical models paved the way for new growth theories that sought to explain long-run growth from within the model, hence the designation of "endogenous growth theory." This strand of theory explains changes in technology by analysing the role of investment in research, training and education by firms as well as government policies in changing economic incentives to promote physical and human capital accumulation (Ghatak 1995, 71). The development of these theories implied a shift from the neoclassical focus on physical capital as the fundamental source of growth, to a broader notion of capital to include not only physical tangible assets but also human knowledge and social capital. Knowledge is a very special factor of production that is scarce, but it is the only factor that is not subject to diminishing returns. It is like a public good that can be used repeatedly with no additional cost, and has positive spill overs. Endogenous growth models demonstrate that investment in knowledge yields economies of scale, persists indefinitely, and sustains growth more than physical capital or human capital can do. The recognition of the role of knowledge in economic growth is crucial for an understanding of the contribution of the output of the higher education sector to employment-creating growth and development in South Africa. The output of the higher education sector in a country contributes to accelerated growth and economic development, principally through its impact on human capital accumulation and the creation and transfer of knowledge leading to technology transfer and diffusion.

It is also worth acknowledging at this point that the emphasis upon growth as a pathway to economic development has been highly criticised as a result of the limitations of the so called "trickle-down economics." This is the belief that while the economy is generally growing at an accelerated pace, the benefits of growth would trickle down in the form of spill-over effects to bring about the transformation and improvement in living standards that could be termed development. The critics of this approach argue that it leaves the responsibility of transformation and improvement to an unaccountable and unmonitored process. Stiglitz (2003, 78) argues that "while it is true that sustained reductions in poverty for example cannot be attained without robust economic growth, the converse is not always true: growth need not benefit all. It is not true that 'a rising tide lifts all boats.' Sometimes, a quickly rising tide, especially when accompanied by a storm, dashes weaker boats against the shore, smashing them to smithereens."

The existence of a correlation between growth and improvement in welfare (poverty reduction) does not prove that trickle-down strategies constitute the best way to pursue development. What distinguishes one country's performance from the others is their capacity to identify the right frameworks from which to obtain desired results from specific policy pursuits. This is the context against which the various proposed government programmes and designed interventions would supplement the contributions of an already growing and expanding economy. This is the reason why abandoning the growth path option would not be viable in the long run; rather this path should be enhanced through a truly radical focus and emphasis on the output of the higher education sector. It will require bold and truly radical interventions in this sector to transform it into a growth nexus around which the long-term development of the country is pursued; a sectoral focus that goes beyond the current peripheral treatment of the sector to make it a centrepiece of government's long-term development policy.

Enhancing the Contribution of the Higher Education Sector to Economic Transformation

Higher education in South Africa is intended to provide for individual aspirations of self-development, supply high level skills for the labour market, generate knowledge that is of social and economic benefit, and develop critical citizens (Department of Education, 1997). These goals have been articulated in the National Plan for Higher Education (Asmal 2001) as producing the graduates needed for social and economic development; achieving equity in the higher education system; achieving diversity in the higher education system; sustaining and promoting research; and restructuring the institutional landscape (Asmal 2001). These objectives are often placed side by side without any specific ranking or prioritisation granted to them individually; and with the built-in assumption that their collective pursuit is both feasible and desirable. It is indeed conceivable that the pursuit of any one of these objectives could effectively preclude the attainment of the other, especially in the context of limited resources (not just financial) in terms of systematic capacity to deliver upon the desired results. The pursuit of growth, expansion and transformation may actually represent contradictory and self-defeating objectives to the extent that the generation of knowledge is itself intensive in the usage of knowledge. This has the implication that aggressive pursuit of transformation may actually imply scaring away the knowledge base that would otherwise be crucial for the development of further knowledge. This has repercussions on how quickly the very objective of transformation is attained, as well as implications for how competitive university spaces become as centres for knowledge generation that would drive the 4th Industrial Revolution. A more radical approach that would revolutionise these higher education institutions would be to insulate them from the politics of transformation and rather treat them like “Special Education Zones” or “Special Economic Zones.” They should be allocated with resources and must be mobilised to make them world centres of excellence, attracting and retaining the best skills sets from around the world. This should also enable such “Special Education Zones” to retain those who are currently there, so that together they can train the largest possible number of South Africans to become top notch researchers and scientists.

According to the Quacquarelli Symonds (QS) world university rankings, that compare over 980 universities across the world on the basis of six criteria (academic reputation, employer reputation, faculty/student ratio, citation per faculty, international faculty ratio, and international student ratio), South Africa has one university among the first 350 universities (University of Cape Town at 191), as opposed to a country like Singapore that has two universities in the top 15. There are other rankings that use different criteria but still do not place South African universities among the best in the world. Universities are the backbone for the generation of research output that makes economic development and technological advancement possible. Making South African universities globally competitive in teaching and research output should consequently be a requisite pillar of radical economic transformation. It will require a change in approach and focus on dealing with the issues that currently plague the sector. The questions around the funding model (free education) and the need for transformation (increasing the number of black academics) could be pursued not by closing down the sector, but by opening it up to be able to compete with other global players in the sector.

In the context of radical economic transformation, the production of graduates needed for social and economic development, as well as for the sustaining and promotion of research, are two elements that could be the focus of policy action through the provision of additional support. Direct outputs of the higher education sector include new knowledge in the form of research and graduates. The graduation rate is often used as a measure of the performance of the higher education sector. Graduation rates are calculated by dividing the total number of qualifications awarded at an institution by the total number of students enrolled in the same year. This gives a rough measure of the number of years that graduates are staying in the system, but does not take into account fluctuating enrolments or the different durations of degree programmes (Steyn and De Villiers 2006). Because there is a delay of three to five years between first enrolment and graduation, fluctuations in enrolments can have a significant impact on graduation rates. Measuring student throughput is further complicated because students do not follow linear paths through higher education. Students may complete one year of a course and then move to a different course or to a different institution. While these appear as “dropouts” in measures of the course or institution in question, they may go on to be successful graduates elsewhere (Scott, Yeld, and Hendry 2007). Although graduation rates are not a particularly accurate indicator of efficiency, in the absence of other indicators, we use them to give a rough view of the efficiency of the system.

A more accurate picture of the rate at which students move through academic programmes can be obtained using cohort studies that track the number of people in a cohort to graduate after three, four or five years. These were initiated for the students who enrolled in 2000. An analysis of the 2000 data has shown that after five years, 30% of students enrolling in 2000 had graduated and 56% had left the institution without graduating. An estimated 10% of those who left without graduating, transferred to other institutions. Taking these students and those still enrolled into account, an estimated 44% of students in the 2000 cohort would go on to graduate. By comparison, the Higher Education Funding Council for England projects that 78% of the 2000/2001 cohort in the English higher education system would go on to graduate.

Statistics from the Council of Higher Education further confirm the high drop-out rates from South African institutions of higher learning, placing them at up to 50% in some cases. The higher education sector definitely has challenges of its own. However, if it would serve as the engine around which radical economic transformation is organised—as it should—then more needs to be done to improve its functional efficiency, increase the time students stay within the institutions and actually graduate, and transform these institutions to be globally competitive in the production of knowledge and the training and equipping of graduates. This can simply not be relegated to the periphery of other government priorities; it must become the centrepiece of the government's actions.

Conclusion

The pursuit of radical economic transformation, as currently articulated by the ANC government in its various policy documents, is not a significant deviation from its previous policy positions. The government has been vociferous about increasing the participation of previously disadvantaged segments of the economy and changing the structure of the economy. In contrast, it has been silent about the methods it intends to adopt to accomplish these objectives with the sense of urgency that it seems to be suggesting in its recent policy outings and position papers. This paper has argued that the mechanical process of radical economic transformation, as contemplated by the government, is one that must be intensive in the development of skills and knowledge. It has situated the role of knowledge in the generation of long-term growth and economic development as per standard growth economics. The article contends that radical economic transformation can consequently not be pursued as a short-term policy objective. While arguing that the policy offering represents in many respects continuity from previous policy positions and programmes, it has argued that the pursuit of growth as a centrepiece of government policy should not be abandoned in favour of alternatives that run the risk of increasing uncertainty within the economy. It further makes the argument that the various identified government interventions require two critical capacities to succeed: 1) the implementation capacity of the various government departments; and 2) the absorption capacity of the participating recipients of government interventions. Both capacity requirements are skills dependent, therefore the pursuit of radical economic transformation would only be realised within a framework that makes the acquisition of knowledge and skills the centrepiece of economic transformation. It has further proposed that such economic transformation should be radicalised by making higher education institutions “Special Education Zones” or “Special Economic Zones.” The imperative of making them globally competitive in the production of research output and attraction of international experts supersedes the imperative of transformation. Not that the objective of transformation would be neglected, but a different kind of transformation would be attained; one that positions the economy to be globally competitive and set to take advantage of the 4th Industrial Revolution. An emphasis on economic transformation that takes radical initiatives in the higher education sector is the only secure path to long-term economic transformation, which is in essence the gateway to the radical economic transformation currently advocated for and desired by the ANC government.

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