Industrial decentralisation -
Tentative thoughts on its effects
on employment creation
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Carnegie Conference Paper No.244
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1. INTRODUCTION

For more than two decades now a programme of industrial decentralisation has been the key element in the Government's policy of regional development. Major changes in this policy were introduced in 1982. These primarily reflect a changing perspective on the geographically integrated nature of the South African economy and a perception that an improvement of the incentives will increase the effectiveness of the policy. Stripped of all the idealistic conjectures which are usually incorporated in explanations of the economic rationale of regional development policies, regardless of where they are implemented, a veracious interpretation of South Africa's decentralisation programme would depict it as a 'system of incentives to persuade^industry to invest and create jobs where and when it otherwise would not have done so, not because this necessarily makes good economic sense but because it stems from a preoccupation with political rather than economic considerations'. (Truu 1983: 31).

It must be emphasised that this situation is not unique to South Africa. In fact, a superficial scrutiny of regional programmes in other countries noted for their spatial concentration of economic activity will suffice to show that more often than not the political factor is very important. The British policy to attract industry to Wales and Scotland has a substantial political content while Italian efforts to develop the South are acknowledged to have political objectives too. In the British and Italian examples, however, the political motivation is derived from economic factors; in the South African experience to date, political ideology per se has influenced decentralization policy, with the result that the political content can be regarded as exceptional.

Economic development should represent ways and means of overcoming poverty. If the contribution of industrial decentralisation is considered in this regard, it is presupposed that manufacturing industry

1) Referring to the British policy of regional aid The Economist used the word "bribe" in this context (17 - 23 December 1983: 23).
has a role to play in rural development. It is generally accepted that the development of rural manufacturing can play a significant role in the creation of productive employment opportunities and income; the question is whether a policy of industrial decentralisation is the appropriate device to encourage rural industry in an appropriate and cost-efficient way and whether it is to the advantage of employment creation as a whole.

2. PREMISES FOR APPROPRIATENESS

Any form of economic development strategy such as industrial decentralisation or regional development, should accept in its design certain clearly understood premises that define the limits within which the strategy will operate. These premises must serve as the anchor with the real world situation, clearly distinguishing the possible from the impossible and fantasies from reality.

I am sure that a large number of premises could be found to be relevant; I merely wish to enunciate the following:

- The first refers to the well-known characteristic of dualism in the economy. South Africa (defined to include all the national states, independent and self-governing) is a developing country with a relatively large dynamic and sophisticated modern sector but also with a very substantial peripheral sector. In the latter sector the labour force shares a distinctive feature with the labour force in other developing countries and that is the high proportion of self-employed and family workers with no clear and prevalent employer-employee distinctions in labour markets (World Bank, 1978 : 16). In addition this labour force is unskilled, untrained and uneducated with very little access to capital. A second dimension of dualism exists in the modern industrial sector, with on the one hand the big and highly sophisticated, largely metropolitan concerns, and on the other hand the small, often unsophisticated manufacturer that dominates the industrial sector of the average South African town economy.

2) For the purpose of this paper "rural" is given a wider than normal meaning so as to include towns. The Afrikaans word "platteland" seems to be appropriate in describing what we regard as the rural area.
In the seminal work *Redistribution with Growth*, Ahluwalia argued that

"the existence of self-employment in the poverty group has immediate implications for both theoretical analysis and policy formulation. In countries where the poverty group is essentially a part of the labor market, distribution policies must rely heavily upon expanding employment to absorb the unemployed and upgrading the structure of demand for labor to generate highwage employment for those currently employed at low wages. But if the bulk of the poverty group is engaged in self-employment, this approach may not be sufficient. Expanding employment is undoubtedly one way of absorbing the population engaged in low-income activity, but we also need to consider the alternative of raising production levels in existing occupations". (1976 : 22)

In the South African context we should go further than to consider the alternative of raising production levels in existing occupations: it must explicitly be accepted as point of departure that it will be quite impossible to create sufficient job opportunities in the modern sector to accommodate all the people that will be added to the labour force in the years to come. The capital requirement and the acute shortage of entrepreneurial talent (Sadie 19:1) alone render such a strategy virtually impossible. 3)

The success of any particular development policy crucially depends on its forming a logical part of a coherent overall sectoral development strategy suited to the particular circumstances of the country. No single policy component of the total development strategy, for example small enterprise development, export promotion or industrial

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3) Referring to the estimated "almost three million workers who are underemployed or non-employed in the subsistence or traditional sector, or unemployed possessing neither land nor a job for a livelihood", prof. J.L. Sadie argues that "one cannot hope for a better performance when the modern entrepreneurial cadre, responsible for the decisions which generate economic development and employment opportunities, represents a mere 2 per cent of the labour force compared to 6 - 6½ per cent in most First World countries" (Unpublished memorandum : 1).
decentralisation can work miracles in job and income creation. Disillusionment with the results of certain development policies and the existence of fashions in the relative emphasis on different policies may often be ascribed to excessive expectations. One is still astounded by the great expectations which existed for the previous policy of industrial decentralisation, even though at an early stage it was quite clear to the keen and unbiased observer that the expectations of decentralised job creation were completely unrealistic.

- Economic development and growth in the long-run require that no form of economic activity should be assisted beyond the potential of the long-term viability of enterprises, while due note is taken of the availability and the quality of factors of production and the objectives set for development. The essence of this premise is that a biased view of development should be avoided; for example, in the words of Helen Hughes, "an excessive concentration on small-scale enterprises, labor intensity, and mass consumption goods could be as damaging to growth as their neglect." (1980 : 16).

- The goal of employment maximisation in the whole of the South African economy must be taken into account. The overall requirement for employment creation is such that no policy should detract from the objective of employment maximisation in South Africa; resources are limited and to the extent that decentralisation, for example, produces increases in the average cost of job creation the total number of employment opportunities created may be less than what it would have been in the absence of such a policy. A second facet of this argument is that any policy that replaces metropolitan job opportunities or detracts from their creation may produce severe urban poverty. Note should be taken of a recent warning by professor S.P. Cilliers that the big challenge of our time is not set by urbanisation but by urban population growth. (1983 : 19).

- Finally, South Africa lacks the resources to develop a large number of growth points which could eventually generate agglomeration advantages and develop metropolitan areas which could counterbalance the pulling power of the PWV-area in particular.
If these premises are accepted it follows that policy measures designed to alleviate rural poverty through industrial development should not detract from the effort to maximise employment opportunities in the whole economy. Given the importance of the metropolitan areas in the overall employment situation and the occurrence of high urban population growth it should in particular not prove detrimental to metropolitan employment growth. Consideration should also be given to the need to promote industries which could, at least initially, operate as viable concerns in less sophisticated environments. Furthermore, care should be taken not to regard industrial growth as a panacea in the elimination of poverty. Industrial development must form part of the total development strategy in which, for example, the labour intensive service sector can also make a significant contribution. To the extent that efforts are made to attract big industry into areas which could develop into metropolitan areas it would also from a resources point of view be advisable to restrict the number of growth points.

Applying these conditions to the South African situation the following observations can be made:

- The incentive package of the decentralisation programme, combined with the activities resulting from the small business development policy, provide a series of incentives and measures that could effectively be used to promote rural industrialisation for the whole spectrum of sophistication, i.e. from the less sophisticated small enterprise to the sophisticated large undertaking.

- In the formal presentations of regional development policy it is acknowledged that "industrial decentralisation measures (are) a first step in the formulation of an overall regional economic development strategy." (Information Newsletter, 1982). Within the broader perspective of regional development the importance of the informal sector is also reiterated in official statements on regional development.

- The decentralisation policy is designed to make provision for the actual re-location of industries from the metropolitan areas to the designated decentralised areas. It has been decided that article 3 of the Physical Planning Act will be replaced with a measure which in its effect will imply a selective tax to internalise the social costs of metropolitan development, particularly
in the PWV-area. Incentives to re-locate, combined with restrictions on locating or expanding in metropolitan areas, are meant to replace metropolitan jobs with rural jobs and as such resources are used which will not increase total employment.

The government does not accept the argument that too many growth points have been selected. Official spokesmen give the assurance, in the words of prof. Mike Truu "that this may be yet another example of many having been called, but few chosen." (1983 : 32). The prevailing argument is that the government will only supply infrastructure to a limited number of industrial growth points with a proven record of success in the attraction of industry. This line of thought ignores the fact that the central government is not the only agent in the provision of infrastructure. The combination of the local governments' contribution of infrastructure, the expectations raised by the designation as a development point, and the influence of political lobbying all contribute towards the establishment of infrastructure which cannot be justified in terms of job and income creation.

Given these observations, and accepting that they are valid, an observer of development policy in South Africa would be tempted to conclude that the current policy does not sufficiently take note of the particular characteristics of the South African economy and the parameters which these set in determining methods and goals.

3. DECENTRALISATION AND RURAL DEVELOPMENT

The policy of industrial decentralisation can and does play a significant role in the creation of rural job opportunities. It is, however, a moot point whether the resources going into the implementation of the programme cannot be used to more advantage in terms of total employment creation. Policy measures in any area of employment creation which fail to take into account the need for more jobs in the entire economy as well as the diverse structural characteristics of the South African economy will have little chance of producing an adequate increase in the welfare of the whole of society.

The first drawback which can be identified is that the industrial decentralisation programme works against, and not complementary to urban job creation. To my knowledge it has not yet been unequivocally proven
that any of the metropolitan areas in South Africa has reached a stage characterised by negative externalities. If in all magnanimity it is acknowledged that the PWV area may possibly be in this category, then it still remains a fact that the other three areas, i.e. the three coastal metropolitan areas, cannot even vaguely be considered as near to this situation. In fact, it can be argued that the Western Cape and Port Elizabeth/Uitenhage have an underutilized infrastructure, a point which is even acknowledged by the authorities in the Information Newsletter on the new decentralisation policy. This points towards positive externalities in the development of these areas.

In the levying of a selective tax in metropolitan areas the intention is to exclude those centres which have a surplus capacity in infrastructure. However, the existence of the highly attractive incentives for decentralisation creates a bias against development in these urban centres which, given the existence of deconcentration points, will lead to re-locations with little or no effect on total employment. The current incentives are so advantageous that many firms may find it in their particular interest to re-locate given that no negative externalities may exist in the area from which re-location takes place. The end result may be that society as a whole loses - resources are used to the advantage of the individual concern without an increase in real production and employment.

The latter statement begs the question of whether the resulting rural development will not justify the resource use and in this way serve the long-run interests of society.

I have my doubts in this regard. The problem can be approached in two ways, each differentiated according to the size and sophistication of firms and the expected regional impact. As far as the decentralised development of large-scale industry, sufficiently concentrated to reap agglomeration advantages in time to come, is concerned, the large number of growth points may prove to be more of a disadvantage than expected. The applications for decentralisation assistance indicate that a limited number of development points are responsible for the majority of decentralisation decisions; nevertheless the spread is such that it is impossible to identify the three or so new metropolitan areas which South Africa can afford. (Maasdorp, 1980 :13). It is possible that resources are being disseminated over so many towns that none will develop the selfgenerating momentum inherent in the agglomeration effect. This implies
that special assistance (subsidies) will be required in perpetuity to keep the decentralised firms in existence, or else the future "road to decentralisation will be strewn with corpses", to paraphrase a personal observation by a senior official on the history of decentralisation.

The second approach concerns the question whether the current programme, in design and implementation, fits the requirements of the typical rural small producer. In this regard the small business development programme must be considered in conjunction with the decentralisation policy.

As far as the true informal industry is concerned it is clear, as a matter of course, that no official programme can assist the informal trader and manufacturer. As I understand it the informal producer is in some way or other infringing a legal stipulation, and it is difficult to conceive how it can be possible officially to stimulate informal business per se. Tolerance and flexibility in applying rules and regulations would appear to be the only "method" of providing opportunities for the informal sector to create jobs and income.

The existing programmes, both small business and decentralisation programmes, do aid formal small industries but it is doubtful whether in its current form they fully fit the requirements of the typical small business. In a recent investigation into the economic development potential of George, a town which is an industrial development point in Region A, it was found that small industries

- experience finance costs and the quality of labour, reflecting on the quality of management, as the most important impediments to their growth and development,

- do not have access to a comprehensive extension services, and

- are strongly orientated towards the local market with very limited regional linkages.

The decentralisation policy is obviously and correctly not designed to provide extension services. However, the incentives of this policy go a long way towards solving the problem of high finance costs but these are only available for firms locating or expanding in the designated decentralised areas. The small business development policy does provide
for a system of extension services and, to a far lesser extent than the
decentralisation programme, for subsidised finance, but the exposure is
not so widespread that small industries have ready access to these
facilities. In fact, in the George project it was found that the
large majority of small industries have no or only the vaguest idea
of the small business development policy. Note must also be taken of
a strong body of opinion which argues that subsidised loans for small
business distort relative factor prices in an economy which can ill
afford it.

4. CONCLUSION

The policy of industrial decentralisation has as its objective the
creation of job and income opportunities in designated rural areas.
Compared to the levels of economic activity in the metropolitan areas
the contribution of the decentralised areas to employment and income
creation is very small. However, since the implementation of the new
policy in 1982 the effort put into selling the policy has increased
and the range of incentives used as inducement have been improved to such
an extent that the strategy demands the attention of all who take an
interest in the need for job creation in the economy.

An overview of the policy reveals that the strategy has the potential
to detract from employment creation in the economy as a whole. To the
extent that jobs are merely re-located from urban to rural areas, resour­
ces are used which do not lead to a net increase in available jobs;
this occurs in an economy in dire need of more employment opportunities,
not least of all in the metropolitan areas.

Considered as an instrument of regional development the decentralisation
policy is bound to have limited success in the development of new
metropolitan areas that will counterbalance the existing ones. The
problem is that the available resources are spread over to large a
number of development points, thus inhibiting the development of
specific areas to a point where the positive effects of agglomeration
advantages will render special assistance unnecessary. At the same
time the decentralisation policy, considered in conjunction with the
small business development policy, does not on a wide enough scale address
the most important problems experienced by small industries. Informal
industries can hardly be assisted in a formal and official programme. As
far as the more formal small industries are concerned extension services may go a long way towards solving many problems related to the management functions of industry. High finance costs are traditionally regarded as a major problem facing small vis-a-vis big business. It is tempting to argue for large-scale subsidies to circumvent this problem, especially in view of the fact that it is small business that must bear the brunt of an anti-inflationary policy based on monetary stringency. Subsidised loans are, however, not necessarily the solution because this may imply that the price of capital is artificially lowered, thus distorting relative factor prices in a labour surplus economy.

REFERENCES


These papers constitute the preliminary findings of the Second Carnegie Inquiry into Poverty and Development in Southern Africa, and were prepared for presentation at a Conference at the University of Cape Town from 13-19 April, 1984.

The Second Carnegie Inquiry into Poverty and Development in Southern Africa was launched in April 1982, and is scheduled to run until June 1985.

Quoting (in context) from these preliminary papers with due acknowledgement is of course allowed, but for permission to reprint any material, or for further information about the Inquiry, please write to:

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