TRANSFORMING DEVELOPING A BASIS FOR GROWTH

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This paper examines recent contributions to the study of econo the developing regions of South Africa. New growth theory s government does not establish the correct economic and polit growth observed in certain low-income countries has more to investment in physical and human capital. A brief compariso new growth theory reveals some fundamental problems facin implementing strategies that will produce the institutional uncertainty in commercial transactions, and ensure that l consequences of poor governance.

1. INTRODUCTION

This paper examines some recent contributions to the study of economic growth and attempts to draw inferences relevant to agriculture in the developing regions of South Africa. The aim is to identify fundamental problems inhibiting agricultural development in these regions.

Agriculture should, and could, make a contribution to economic growth in the homelands[1] of South Africa. At present these less-developed areas are net importers of food, and are characterised by extensive rather than intensive land use despite extreme population pressure and high rates of unemployment. Past efforts to improve homeland agriculture were confined largely to public investment in extension and training, credit programmes, irrigation projects and machinery services. Current agricultural policy proposes greater public investment in the developing sector, and a realignment of research and extension resources to better serve the interests of small-scale farmers.

It is well known that economic growth produces negative externalities like pollution and congestion, but these problems are not insurmountable and pale in comparison to the misery caused by poverty. Of course, there is not a perfect link between economic growth and poverty, but it is difficult to imagine a significant decline in poverty in the absence of economic growth. Sections 2 and 3 of this paper review pertinent contributions to the theory of economic growth, and section 4 summarises recent empirical findings. The relevance of this work to local conditions is demonstrated in section 5, and the paper concludes with comment on the role of government and the need for objective policy research.

2. NEW GROWTH THEORY

Economic growth played a central role in the development of economic theory. In 1776, Adam Smith published his inquiry into the nature and causes of the wealth of nations. Smith attributed economic growth to the division of labour, the accumulation of capital and technical progress. He also recognised the importance of a stable legal framework within which markets could function. In 1817, David Ricardo formalised the concept of diminishing marginal returns - a concept readily adopted by neoclassical growth theorists during the 1950s. The neoclassical model postulates that growth in response to increasing physical inputs would slow and eventually halt unless there was technical progress.

Under these conditions, economic growth may w
more on institutions and policies that minimise
on the accumulation of physical resources a
capital. This thesis certainly helps to explain th
the highest rates of economic growth have bee
not by rich countries but by a subset of poor cou
managed to narrow the gap between their
potential income by adopting relatively good
policies and institutions (Olson, 1996).

3. INSTITUTIONS AND GOVE POLICY

Institutions refer to arrangements among econo
that influence uncertainty in exchange and
(North, 1990b). The legal, regulatory and instituti
framework, of which property rights are a fu
element, determine the opportunities and inc
players in both economic and political exchanges
and Swinnen, 1995). The relevant question is w
governance yields optimal public policy and
performance?

According to Beghin and Fafchamps (19
governance requires government policies and
that promote competitive markets and whic
efficiency in exchange by reducing transaction
example, property rights must be secured and
law enforced so that private returns on inves
exchange are predictably allocated. Good gov
facilitated by *economic and political openness*. T
economic openness as the commitment to let
discipline work and to ensure the sectoral and in
mobility of resources. This allows private agents
against bad governance by *exit* - that is, by t
resources across sectors and boundaries. Politica
refers to the contestability of political markets
service provision, the participation of pressure
policy decisions, and the transparency of the poli
process. Political openness makes it possible for
and groups to *voice* their opposition to bad govern

The theory of endogenous policy asserts that pol
are determined by the political power of indi
groups, subject to constraints (Zusman, 1
constraints are determined largely by the LRI. Fo
the behaviour of all political players is constrai
threat of exit if the prevailing LRI sustains
openness. Our stock exchange and currency ma
shown that even the most respected leaders are n
to economic censure. Political openness, account
respect of the rule of law also place limits on
rent-seeking behaviour, thereby defining the
implementable policies. The implication is that
and political openness lead to more *predicta*
because the State can be penalised for bad
through voice and exit (Beghin and Fafchamps, 1

While it is true that predictable policy is a chara
western democracies, democracy is neither a suffi
necessary condition for good governance, especi
times of political transition. History has s
dominant coalitions and benevolent dictators
produce a mix of economic and political ope
stimulates economic growth. De Gorter and Swin
conclude that the *credibility* of government's com
protect property rights and commercial rule
important than political pluralism, at least in the e
of economic development.

Table 1: Measures of governance and institutional arra

Concept	Me
Transaction costs	Ethnic, religious and language di
	Weak communication infrastruct
Political openness	Favourable ranking on Gastil's in
	Electoral support for opposition p
	Low incidence of political violen
Economic openness	Ownership of foreign currency, s
	Volume of *impersonal* exchanges
	Freedom of movement in one's o
	Few restrictions on the ownershi

Source: Adapted from Beghin and Fafchamps (1995).

More relevant to the topic though, are the implications o new growth theory when applied to the less-develope regions within the country. Accordingly, policy whic provides better access to resources, information and trainin may elicit only a muted response from rural households i **local** institutions do not provide opportunities and incentive for farmers. There are some indications that policy-maker share this view. For example, the green paper on lan reform recognises the importance of secure land tenure, an emphasises new legislation intended to upgrade propert rights to land held by communities (Department of Lan Affairs, 1996:43). Of concern however is the extent t which existing and alternative institutional arrangement satisfy the criteria for economic growth.

The balance of this paper attempts to focus attention on th nature of institutional problems in the less develope regions of South Africa that warrant objective analysis b agricultural economists in South Africa. Most of th examples which follow are based on empirical research, bu some are drawn from the more subjective realm of persona experience. Even so, the list is far from complete.

5.1 Land tenure and management institutions

Property rights to agricultural land in the developing region have been the source of academic controversy for som time. Recent literature has challenged the view tha customary land tenure is secure, and Thomson (1996:88-98 provides convincing evidence that private returns o investment and exchange are not predictable. It is significan that Thomson's findings relate to arable land which i characterised by relatively well-defined and exclusiv individual property rights. However these property rights ar not well enforced and farmers risk severe crop losses due t theft and damage caused by livestock. On a more positiv note, Thomson has shown that adaptations to the local LR framework are not only possible but also that smal improvements in tenure security and in the application o laws governing contracts have a pronounced impact on th rental market for land, leading to more intensive land us and welfare gains for both lessors and lessees. Importantl he recognises that these institutional changes would no have been possible without a firm commitment and visibl support from credible leaders in his study area - in thi instance, the Nkosi (chief) and his tribal councillors.

Property rights to grazing land pose a far more comple problem and it would be naive to propose that communa grazing should be reassigned to individuals. It is also naiv to assume that communal grazing is common property a

1994). It took several decades and a concerted eff government to transform large groups of co-own credit-worthy management institutions. Not su these 'new' institutions resembled private companies this outcome is not precluded by local policy, it is not compatible with the idea of registering ove individual rights to the same parcel of land (Depart Land Affairs, 1996:45), nor is it likely to transpire strong guidance.

The implications for research and extension a illustrated by a problem facing researchers inve rotational grazing systems for small-scale far KwaZulu-Natal. Assuming that a profitable rot discovered, to whom should the findings be dissemi areas where stock-owners share grazing land but their own herds? Under these circumstances, the and maintenance of new husbandry techniques is unlikely in the absence of centralised management.

5.2 Market transaction costs

Markets produce the objective information tha economic decisions taken by farmers, financiers a that produce technology. Missing and imperfect lead to divergencies between private decisions an considered desirable by society. One example tendency for rural households in overcrowded home adopt time-saving rather than land-saving farm tech because the private opportunity cost of agricultural extremely low in the absence of an efficient rental Efficient markets require low transaction costs (D 1964).

Lack of adequate infrastructure is an obvious cause transaction costs, and few analysts would dispute t for improved road, postal and tele-communication n in the homelands. A recent comparison of tribal war KwaZulu homeland revealed that the poorest war those furthest removed from markets and mai (Fitschen and Klitgaardt, 1996). Significantly, the r this study showed that differences in physical and resource endowments did not explain the bulk of variation across tribal wards. While some of the variation was attributed to distance from markets a roads, the data were not rich enough to consider oth of infrastructure or the quality of institutions in tribal

Legal uncertainty is also an important source transaction costs. Many of the homelands host du systems. Individuals have recourse to national l disputes involving local contracts and property ri usually handled by tribal courts. Case studies have r an absence of firm legal precedents for com contracts, uncertainty about fees charged and compe awarded, weak enforcement of court rulings, and that claimants are personally liable for the cost of provided by tribal police (Thomson, 1996:92-96) result, the expected level of compensation for resulting from a breach of rights seldom warrants the seeking legal redress, even for cases that would be r as clear-cut in other parts of South Africa. This p increases the risk attracted by impersonal trans especially when contracts involve moral haza example, Ouattara and Graham (1996:9&47) n virtual absence of impersonal credit transactions wi homelands. In general, commercial contracts are con either highly personalised or strictly cash tran characterised by a short marketing chain and few ec of scale. Barriers to entry and transaction costs referring to the former independent states and self governing territories of South Africa.

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