



SOME REFLECTIONS ON ECONOMIC DEVELOPMENT: SPATIAL TRANSFORMATION AND TARGETING

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For an Equitable Sharing of National Revenue

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RURAL URBAN CHALLENGES

– Rural:

- Achieving strong growth and improving the wellbeing of rural residents
- Remoteness from dynamic areas is an important drag to growth
- low population density, poor transport and ICT linkages

– By contrast, for urban areas

- Current land use patterns are inefficient which is costly to society in terms of forgone GDP, wasted physical resources, marginalisation of vulnerable population groups and exacerbating inequalities
- The more redistributive social policies that reduce material poverty are pursued in such, the more the urban spatial inequalities worsen reinforcing economic, racial and cultural marginalisation

WHAT FISCAL TOOLS ARE AVAILABLE?

- **SA certainly trying and in recent times at strategic level there is...**
 - New Growth Path
 - National Development Plan
 - National Infrastructure Plan
- **Buttressed at operational level by:**
 - SPLUMA
 - National Spatial Development Framework & Observatory
 - Integrated Urban Development Framework (IUDF)
 - Green/White Paper on Human Settlements
 - Powers & functions review
 - Grant alignment & incentivisation >> spatial targeting: USDG, PTISG, NDPG via City Support Programme & manifest in Built Environment Performance Plans
 - DHS National Human Settlements Spatial Master Plan
 - Other...

SOME INSIGHTS FOR BUDGET COUNCIL

- Despite the efforts and interventions above, country still saddled with disparities between and within regions...
 - Sizeable gaps remain between regions in income and other wellbeing indicators
 - Income disparities also remain within regions
 - So there is work to be done yet still
- **Options:**
 - What options are at our disposal?
 - What are the pros and cons?

OPTION 1: DO NOTHING

– **Business Usual Scenario:**

- *Nothing gets changed and we continue doing what we are currently doing*
 - Will probably take 30-50 years to get there
 - With persistent social upheavals, possibly revolt driven by suffering and impatience
- IS THIS GOOD ENOUGH?**

OPTION 2: GRADUALISM WITH EXPERIMENTATION/INNOVATION

- *This option stays the course, gradualism with experimentation/innovation built in but along given plan*
 - Continue with Indigents' policy & top-up investments through cross-subsidisation and aggressively pursue targeting and efficiency
 - Ensure utilisation of all of annual housing subsidies & trying to innovative within that frame
 - Harnessing the growth potential of peri-urban and rural areas...
 - Lewis-type processes can drive productivity growth between regions, at least for some time, but need to be complemented by policy efforts to sustain productivity growth within peri-urban and rural areas e.g., (i) aggressively pursuing integrated transport within defined framework, (ii) using economic analysis to improve social and spatial impacts of public and private investments
 - Strengthening intergovernmental relations...
 - » Incentives for performance need to be boosted, especially in places with large regional disparities
 - » Weaknesses need to be overcome (coordination failures, gov-complexity, etc⁷.)

OPTION 3: BIG BANG

– This is the more revolutionary approach:

- *Do away with Gradualism or notions of learning by doing and changing on the margins*
 - Strong emphasis on creating irreversibility and
 - Moving fast on all fronts (big bang approach)
 - **Note, theoretically, Option 2 dominates big bang if and only if option of early reversal has value.**
 - » **Option value of early reversals increases expected payoff because lower cost of experimentation!**
 - » **So the Question for BC Lekgotla is ‘Does one risk catastrophic collapse by assuming otherwise?’ i.e., that option value of early reversal has no value?**
 - » **What safeguards are there?**

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