

SA a failing state? Hmmm. No.

Several BoE clients have asked for a comment on suggestions that SA is a failing state. I am reluctant, for what is a failed state? Definitions vary with some even saying the term “has no coherent definition”. How to judge then?

For me the definition is whether the country is better off now than in 1994. It cannot simultaneously be better off and a failure. It is one of the two.

And the comparisons must obviously be apples with apples - the whole of SA then (i.e. White SA, the 10 homelands, the Houses of Delegates & Representatives and the vast excluded majority of citizens) with the whole of SA now. What does the data tell us?

“It’s the economy, stupid”

For me, Bill Clinton’s slogan captures the most important indicator of whether a country is failing or not. Nothing, but nothing is as important as growth and the fruits of growth – jobs, taxes, investment and social services. Growth is not sufficient, but it is certainly indispensable. Any scenario that ignores the economy is really not worth reading.

The facts are simple. The SA economy is 63% bigger today than when Mr Mandela left prison. Over that period the population has grown by about 39% or 14 million people (including an estimate of immigrants). The result of these two numbers is simple – per capita incomes are 27% higher than they were at their low point in 1993.

We see the evidence around us in shopping malls, new housing estates, more cars on the road, rising asset prices, more taxes being collected, more money available for investment and so on.

Income and assets are of course very unequally distributed. Inequality is a major feature of SA’s political-economy, must be addressed and is being addressed through a variety of measures, some efficient, some not. But inequality in itself is hardly evidence of a failing state.

Poverty

Growth also made it possible to roll back poverty since 2001. The single most effective measure to combat poverty has been the expansion of the social grants system. Nearly 14 million beneficiaries get a cheque from the government every month and that costs about 3,5% of GDP. As long as the economy grows one can grant inflation increases to these beneficiaries and still gradually reduce the cost below 3,5%. It is all sustainable *ad infinitum* as long as the economy grows. What are the prospects for growth?

Sustainability

Currently, most economists predict growth of 3% to 3,5% for the next few years - subject, of course, to global shocks.

The economists' staple diet (interest rates, exchange rates, confidence measurements, activity indexes) is very useful to guide us through the (short term) economic cycle. To develop a more long-term view, we must dig a little deeper and look at the 3 fundamental drivers of economic growth: jobs, investment and technology/productivity.

- **Investment** has improved from 15%/16% of GDP to 23% the year before the recession struck and 22% during recessionary 2009. South Africans are investing more in their country than in a long time. *For every R1 the state spends on social allowances it spends R2,31 on investment. That does not look like a failing state to me. Can we please bin the nonsense that we spend more on social welfare than investment?*
- **Productivity** has improved substantially since 1995; the institutional arrangements around **research and development** have improved; and R & D spending has started increasing again, now approaching the benchmark of 1% of GDP. (Spending declined as a result of the dismantling of SA's military-industrial complex, including the nuclear bombs we built.)
- The weakness in our long-term economic trajectory is **unemployment**. 4,5 million people are unemployed and most of them will never work. How can that change?
 - At 3% growth we should add about 250 000 jobs to the economy annually. Over the next ten years that will add roughly 2,7 million jobs in total. More people will be drawn into modernity.
 - Stop-gap measures like the Public Works programme (4,5 million job opportunities – not jobs – over 5 years) have already and will continue to bring some additional, albeit temporary, relief in unemployment.
 - The only real solution is growth of more than 3%. The Patel plan wants to create 5 million jobs, but in previous BoE notes we have expressed our scepticism about results. Let 's hope we are wrong.

The improvement in investment and productivity/technology is hardly evidence of a failed state. On the contrary.

The failure to create enough jobs may create a sense of a failed state, but consider the numbers above a little more closely. 2,7 million more jobs over ten years will grow the modern component of SA considerably in spite of high unemployment. The proportion of people who are working will rise, expanding the base of the economy and increasing the number of taxpayers. Unemployment means more dualism and inequality, not a failed state.

Perhaps the biggest single factor in SA's sustainability is **demography**. Population growth, including immigrants, now stands at 1,06%. At 3% economic growth and 1% population growth the logic of the numbers is inexorable. As the Americans like to say: "Go figure..."

(On sustainability, can we please also bin the nonsense that 5 million taxpayers carry the country – everybody who earns an income and spends it, is a taxpayer. 45% of taxes collected are indirect taxes, mainly VAT and petrol taxes. Furthermore, consumer spending helps corporates make profits which are

taxed; it helps sustain businesses that pay rates and taxes to local authorities. It is not just people who are registered as personal taxpayers who pay taxes.)

It is also institutions

Probably the issue that drives most South Africans to the conclusion that the country is failing is the poor quality of many of its public institutions, particularly local government (water, sanitation), and education. Corruption obviously plays a huge role. There is consensus, even within the ANC/Cosatu/SACP, about how bad these are. They constitute real challenges for SA. But do they constitute a failing state?

Challenge and response

The doyen of historians, Arnold Toynbee, taught us that the ability to respond to crises is **the** critical difference between societies that succeed and those that fail. Progress does not come from having no challenges; rather it comes from responding to challenges successfully.

The ability to respond arises from:

- an open society (independent media, courts, political parties, strong civil society);
- an open economy; and
- strong fiscal management. Does anybody want to argue that the Treasury, SARS and the Auditor-General are failed state institutions?

Eskom is a very good example of how a crisis (in Jan 2008) and the public reaction to it, led to a response (the building of two new power stations adding 9 000 MW to the existing generating capacity of about 43 000MW).

Another example is the Johannesburg municipality. In the mid-nineties it could not pay its salaries. Huge restructuring took place, some good, some less so. Today Jhb Metro raises money on the capital markets, has a capex budget of several billion, and has brought services to areas that have never had it. Challenge and response.

Three more areas are receiving attention: police training has just been doubled from one year to two years; and education and local government failures have moved to the top of the political agenda, creating political pressure. We are likely to see improvement over time.

Private sector

SA is blessed with, by and large, an efficient private sector that helps to turn the wheels of society. (There are the rogues exposed by the Competition Authorities, but they are a minority).

Private companies with new technology brought telephone connectivity to millions. The banking sector and insurance sectors are world class (if expensive). The country has efficient capital markets. We have a health sector that can facilitate health services and will increasingly do so over the next few years.

In addition, business is doing excellent public work in Business Against Crime, in contributing to economic development through the NBI, in combating HIV/Aids and in helping culture through sponsorship of the Arts, to name a few.

Pity Russia, they have a dysfunctional government AND a dysfunctional private sector.

Not alone

The governance problems we have in SA also exist in our peer group, the BRIC countries (Brazil, Russia, India, China). SA has better literacy rates than India; scores better than all 4 BRIC countries on corruption indexes; manages its finances much better than established European countries like Greece or Ireland. Each of these countries have their challenges, but failed states they are not.

In all developing countries it takes time to build efficient institutions. Some of them we have built (Treasury, SARS, the Constitutional Court, some of the Metros). Others are works in progress, like some municipalities.

So What?

SA is a better place than 20 years ago. For all the problems with water, sanitation and housing more people are enjoying those services today than at any point in our history. For all the unemployment, 3,3 million **more** people are working than in 1994. Failed state? One only sees a failed state if one compares SA today to White SA 30 years ago. Bad history.

The condition for ongoing success is the ability to respond to challenges like failing water systems or education. So far the country largely has – from Eskom to Jhb Metro to the World Cup. It has an open economy and an open society which helps to generate corrective behaviour.

That does not mean it is a strong state. In some respects it may even be fragile. But it is certainly not a failed state. Can we now please also bin this myth of a failed state.