South Africa's Anti-Growth Strategy

How poor policy and bad governance are wrecking growth

THE GROWTH AGENDA
Priorities for mass employment and inclusion

CDE

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The Centre for Development and Enterprise (CDE), an independent policy research and advocacy organisation, is South Africa's leading development think tank. Since its establishment in 1995, CDE has been gathering evidence, generating innovative policy recommendations, and consulting widely on issues critical to economic growth, employment and democratic consolidation. By examining South African and international experience, CDE formulates practical policy proposals outlining ways in which South Africa can tackle major social and economic challenges.

CDE has a special focus on the role of business and markets in development. CDE disseminates its research and proposals to a national audience of policymakers, opinion formers and the wider public through printed and digital publications, which receive extensive media coverage. Our track record of successful engagement enables CDE to bring together experts and stakeholders to debate the policy implications of research findings.

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Photo credit: Gallo Images

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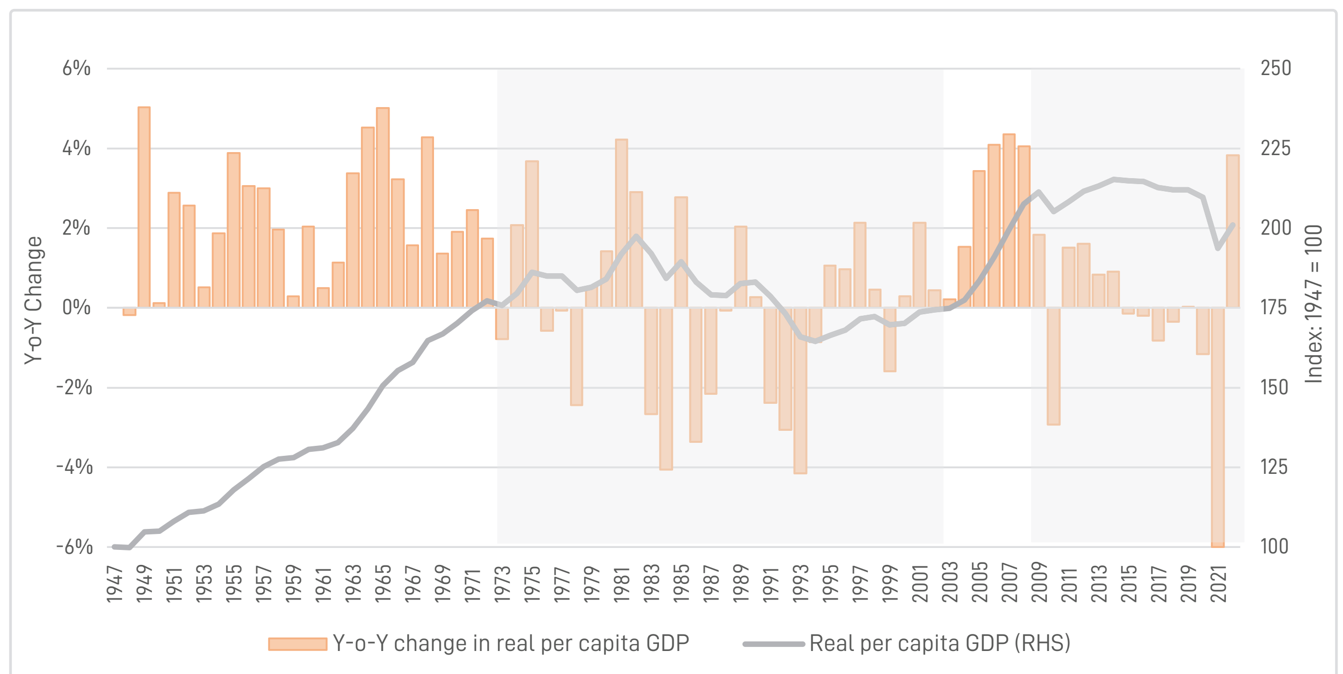
Introduction

One issue on which all of South Africa's stakeholders, political parties, commentators and "thought leaders" agree is that faster economic growth is a critical priority. And yet, as anyone who has ever looked at the country's macroeconomic data knows, the most striking trend is the absence of growth since the 1970s, and, especially, the collapse of growth over the last 13 years. Tragically, that collapse followed the relatively fast-growing years in the mid-2000s, the only period of sustained growth since the 1960s (Figure 1).

"It is hard to overstate the socio-economic and political importance of the collapse in growth"

Figure 1: Per capita GDP growth, 1947 to 2021, periods of sustained stagnation shaded grey



Source: SARB database

Economic stagnation in South Africa, combined with relatively rapid growth in global output over the past two decades, means that South Africa now contributes a smaller share of global output than it once did. In 1999, South Africa accounted for just over 7.5 percent of global output, a figure that had fallen to less than 6 percent in 2019. This compares very unfavourably with many other developing countries: China's share of global output rose from under 11 percent to over 18 percent over that time, India's rose from 4 percent to nearly 7 percent. Malaysia, Poland, Pakistan, the Philippines, Bangladesh and Turkey all saw their share of global output increase, too.

It is hard to overstate the socio-economic and political importance of the collapse in growth. Primarily, that is felt through higher levels of poverty and reduced standards of living. But the growth collapse is also a key driver in the deterioration of our politics: a shrinking economic pie, and the effects of this on people's sense of their prospects and opportunities, makes contests over policy more fraught. It leads to more corruption, more populism, more xenophobia and more blame-shifting. Most immediately, it has meant that politics within the ANC have become more vicious as its diminishing electoral prospects have meant that there are fewer

> **"For most of human history, there was no such thing as economic growth"**

opportunities to deploy cadres, and that those deployments are less valuable than they once were. This has exacerbated pre-existing factionalism and mistrust in the party, raising them to the level of pathologies that have become among the most significant of the brakes on economic growth.

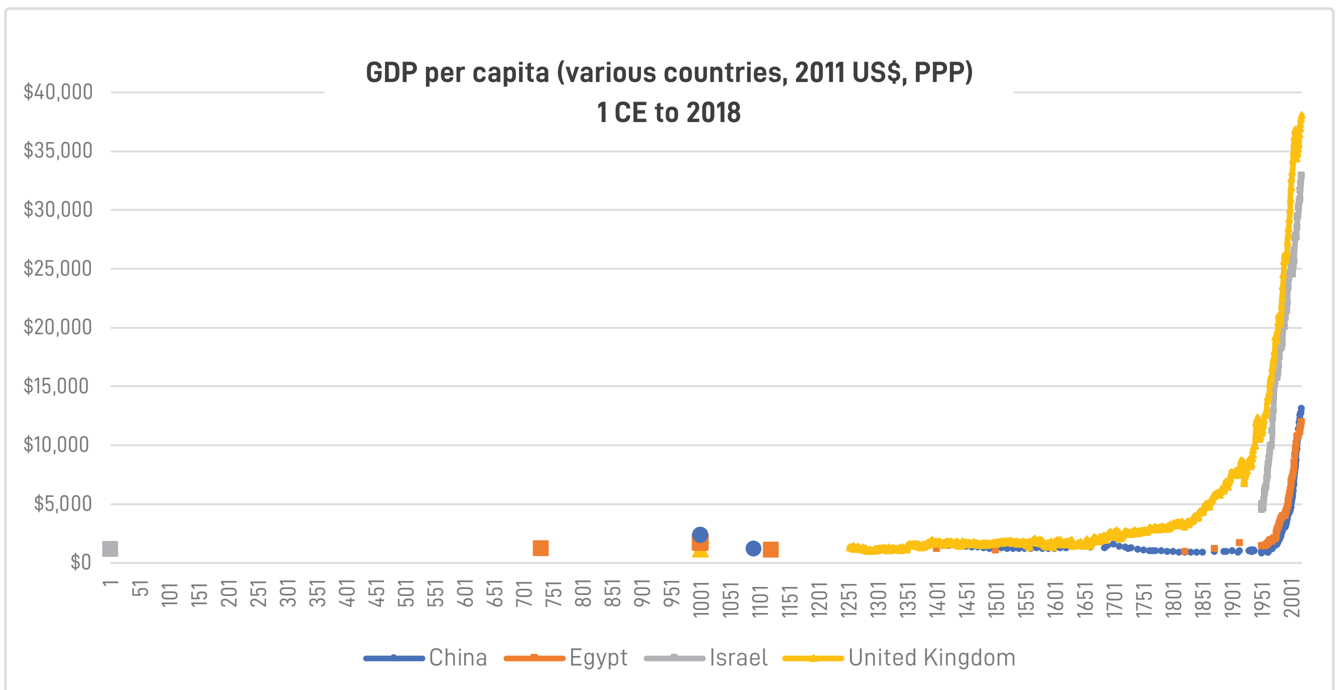
This report seeks to offer an explanation for the dire growth performance of the South African economy over the past 15 years. Our central argument is that South Africa's failure to grow more quickly is overwhelmingly the result of poor policy choices and a catastrophic decline in governance. These challenges are intimately related. And much too little has been done to address them. Indeed, in many policy domains, we continue to make the same mistakes over and over again, with little sign that political leadership is able to rethink policy and improve governance.

The next section summarises the basic mechanisms of economic growth, emphasising the critical importance of an expanding stock of physical and human capital, and improving technology. The next sections describe how poor policy and bad governance have undermined these mechanisms, and address some of the deficiencies in policy and governance in a number of domains including: energy, fiscal policy, crime and corruption, mining, logistics, local government and economic transformation.

How growth happens

For most of human history, there was no such thing as economic growth: global per capita output in 1600 CE was not much different to what it had been in 1600 BCE (Figure 2). Precisely what changed in the last 400 years that made possible the vast increase in global output and per capita incomes is the subject of a great deal of academic controversy that need not delay us.

Figure 2: Estimated per capita GDP, 1 CE to 2019, various countries, 2011 US$ PPP



Source: Our World in Data using data from the Maddison Project

> **"South Africa's growth rate has fallen because our capacity to produce goods and services has degraded"**

Growth is a result of two factors: (i) the advance of technologies (which increases output per unit of input) and (ii) the accumulation of human and physical capital. South Africa's growth collapse is driven by falling investment in physical capital, weaknesses in the systems for producing human capital, and the collapse of governance (which is like a form of technology, insofar as good governance helps ensure that inputs are used efficiently). Ultimately, however, the most important factor behind the decline in growth is the collapse in confidence about the future, because it is confidence in the future, and the conviction that the future will be better than the present, that drives investment in human and physical capital. The brighter and more prosperous the future is expected to be, the greater the amount of investment now because economic actors will want to capture some of the benefits of that expected growth. Conversely, the bleaker the future looks, the less people will invest because they expect lower levels of economic activity in the future.

Understanding this dynamic is essential for understanding why South Africa's growth has been so disappointing over the past 15 years: the fundamental reason for the decline in growth is that bad policy and governance has meant that confidence in the future has collapsed, resulting in much less investment in physical infrastructure combined with losses to our human capital stock through skilled emigration.

By itself, the decline in investment would mean that growth rates would have to fall over time as the existing stock of capital wears down. But this has been greatly accentuated by the fact that the collapse in governance has also had regressive effects on the rule of law, the efficiency of the courts, levels of social trust, the legitimacy of government, etc. The result is not just a decline in our endowments of physical and human capital, but a reduction in the efficiency with which economic and commercial life is conducted. Or, stated differently, we have experienced a steep rise in the costs of doing business. The result: South Africa's growth rate has fallen because our capacity to produce goods and services has degraded. We are becoming a poorer society, one that is less and less able to create value and to grow.

An important corollary of this argument is that if South Africa's economy is failing to grow because our endowments of physical and human capital are shrinking and because the quality of governance has regressed, then one should not expect growth to be reignited by stimulating aggregate demand.

The loosening of fiscal and monetary policy can be powerful tools to address the cyclical decline in growth that occurs over the course of a business cycle. These approaches to stimulating aggregate demand are impotent, however, when stagnation and decline is driven by the economy's loss of productive capacity. Indeed, used in these circumstances, macroeconomic stimulus measures will generate more debt and/or inflation rather than more growth. This will actually deepen the existing problem rather than ameliorating it.

Indeed, South Africa's recent macroeconomic policies and their effects vindicate this: the stimulus provided by deficit spending has produced little or no growth and has, instead, resulted in a rapid build-up of debt, rising macroeconomic risk, and higher interest rates. Given this, it is our view that what South Africa most needs to do is actually quite straightforward: we should stop repeating the policy errors of the recent past and, most importantly, we should demand better governance.

Which raises the key question of which policy errors, and what kind of bad governance, have undermined growth?

How poor policy and bad governance undermine growth

Doubtless, there are any number of PhDs that could be written on the distinction between *governance* and *policy*, and the extent to which these two categories overlap. For our purposes, however, we are going to define as *policy* the "what" of government activity: what services does it deliver; what kinds of economic activities does it reward or penalise; what taxes does it raise and on whom; where does it deploy its resources and to whose benefit. *Governance*, on the other hand, is the "how" of state activity. In particular, it refers to how government goes about doing its work: how does it decide what to do and how does it weigh the interests of different stakeholders; how much do ideologies and parochial interests impact on decisions; which rules shape government's action and to what extent does government comply with them; are administrative and licensing decisions made quickly, fairly and predictably, or are citizens and businesses uncertain about when and how answers to applications will be provided; how efficiently are resources used and how much of the total resource envelope is lost to waste, theft and corruption; do checks and balances constrain bad behaviour or are they weak and easily avoided; how well are institutions managed; who is appointed to critical positions; etc.

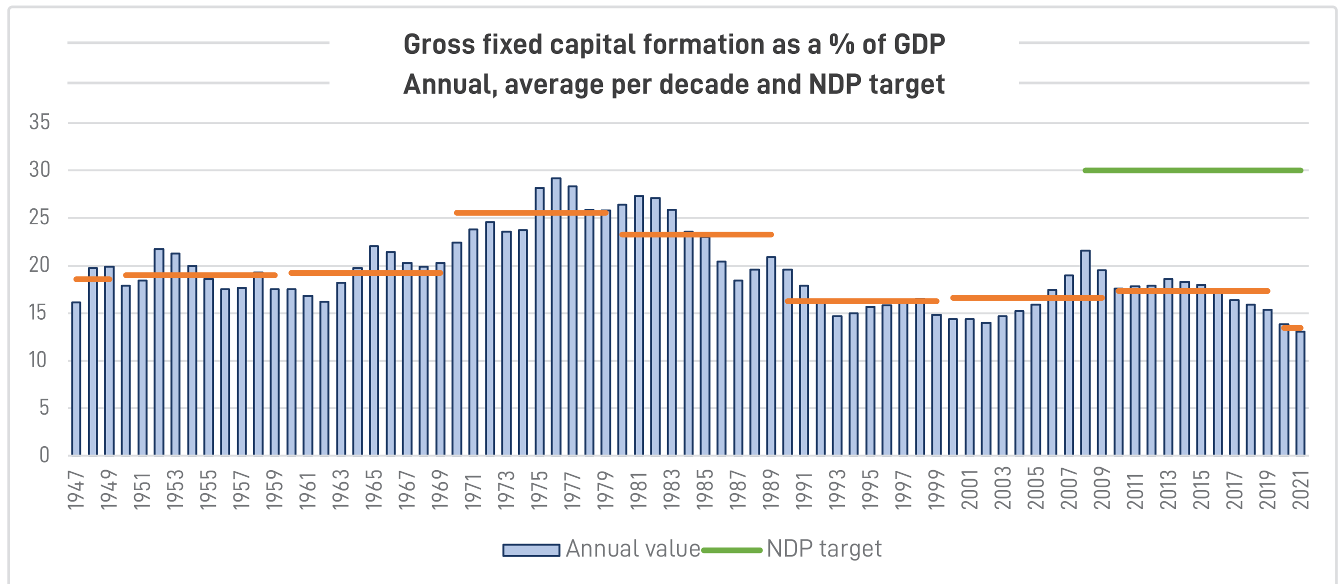
"Both poor policy and bad governance derive from the choices and conduct of political leaders"

Implementation failures that are observed when government acts can derive either from bad policy (since the wrong policies might be chosen) or bad governance (e.g. because those tasked with implementation were more interested in stealing funds than delivering on their mandates or because the required decisions were not made expeditiously).

Linked to both poor policy choices and bad governance is the question of political leadership. It is the leadership of the state that both develops its policies and implements them. Thus, both poor policy and bad governance derive from the choices and conduct of political leaders. It is too simplistic to argue that all policy and governance problems would vanish if the political leadership was better. Such a view, we think, underestimates the sheer difficulty of governing a country with high levels of poverty, unemployment and inequality and that is also riven by political and social fractures. It also overestimates the power of leaders to reshape societal forces. Nevertheless, it is also clearly true that better leaders – more decisive, more capable, less corrupt – would make different choices than the ones being made now. They would also implement policies more decisively and with greater care.

The critical link between the policy/governance nexus and economic growth lies in the effect that policies and governance have on the process of accumulating economic capabilities through higher levels of investment. The National Development Plan set the country a long-run goal for achieving a level of spending on gross fixed capital formation of 30 percent of GDP. As Figure 3 shows, this is a level that South Africa has never attained, coming closest briefly in the 1970s. It is not just that we are some distance from the NDP's goals; we are not even going in the right direction. Since the NDP was adopted in 2012, the ratio of fixed capital formation has fallen almost continuously, reaching an historic low of just over 13 percent of GDP in 2021.

Figure 3: Gross fixed capital formation as a percentage of GDP, annual, average per decade and NDP target



Source: SARB database

The low level and, in more recent years, decline in South Africa's investment rate has many causes. Ultimately, however, the root cause of the failure of investment to rise is that too few investment projects in South Africa have risk-adjusted returns that justify their costs. There are, in other words, too few projects that are sufficiently likely to generate the returns needed to justify the risk of allocating capital to them. This reality is sometimes erroneously described as an "investment strike". In fact, what has happened is that South African businesses, considering possible investments, have seen too few that have returns large enough to justify the risk of making the investment in the first place. And, as we will argue below, the reasons for this turn primarily on issues of policy and governance – if poor policy and governance means that investors can't be sure that the economy will grow or can't be sure that their investments are safe or can't be sure they will not face sharply higher tax rates in the future, then an investment's risks are more likely to outweigh its potential rewards, and fewer investments will be undertaken.

"Poor policy and governance means that investors can't be sure that the economy will grow or that their investments are safe"

Inadequate investment is driven by low returns

There are many reasons why returns on investments in South Africa are too low to ensure higher levels of investment in human and physical capital. Some of these are independent of each other, but many overlap and reinforce each other, leading to effects that, in aggregate, are greater than the sum of the individual parts. We will deal with some of these effects below, but the general picture can be grasped by thinking about the choices that a farmer might face when contemplating an investment in, say, an irrigation system or a dam or in buying their neighbour's property so he can expand his own production. The critical thing for this thought exercise is that the cost of the contemplated investment should be large relative to the farmer's income so that the investment is not a trivial decision, and getting it wrong would have a substantial effect on the farmer's long-term prosperity and perhaps even his solvency.

"Inadequate energy-supply is South Africa's most critical constraint on growth"

In contemplating the investment, our hypothetical farmer must consider the variables that will determine the likelihood of success and the returns that he might enjoy if it were to succeed. Some of these variables are under their control or can be known with a high degree of certainty, but this is not true of many of the key variables.

The farmer knows the quality of the soil, for example, and how hard he is prepared to work in maximising output. He knows also how many people he will have to employ and, more or less, what that will cost. The farmer knows something about how much it will cost to build the dam or irrigation system and buy whatever equipment he might need, though there may be some uncertainties about some of this (construction costs, for example, are generally not known with 100 percent certainty at the start of a project).

The farmer, then, might have a pretty good idea about how much his investment will cost. He also may know something about how much extra produce his investment will generate, though there may be some uncertainty associated with variations in annual rainfall, etc. These are all the variables that the farmer knows with reasonable certainty, and, apart from the weather, he has a measure of control over most of them.

Now let us think about all the factors that affect the long-term value of his investment but about which he has no control:

- Some of the costs of employing people may change over time in ways the farmer cannot anticipate.
- The (rand-denominated) price of the crops he will harvest will vary with the currency, as will the (rand-denominated) cost of inputs such as seed, fuel and fertiliser, and, though he can hedge against adverse movements, the costs of this depend on factors over which he has no control.
- The availability and cost of electricity may depend on Eskom and the decisions of the any number of ministers (and regulatory bodies) who have some responsibility for its generation and distribution.
- The quality, reliability and cost of the logistics involved in moving his product from farm to market, especially if that involves exports through the ports, may depend on Transnet and decisions/actions of the Minister of Transport that may be impossible to anticipate.
- The rate of taxation he will pay on his income and profits depends on government's spending policies and the decisions of the Minister of Finance about tax policy.
- The interest rate he will pay on any debt he has accumulated will depend on the state of confidence in financial markets and on the level of public debt which is the key driver of long-term interest rates.
- Whether his land might be expropriated (and whether this will be with or without compensation).
- Whether his land will be subject to some form of land invasion for which the authorities may not assist.
- How much of his product might be stolen through acts of criminality.
- Whether one of his suppliers or customers will try to cheat him and, if they do, whether the courts will ensure that compensation is paid.

The uncertainties set out above have a material bearing on the investment decision since each impacts on the quantity of produce he might harvest, the costs he incurs, and/or the price which he will get for it. These uncertainties are underpinned by another: if he gets his calculations wrong and the investment goes pear-shaped, will he be able to sell his farm? And, if he does, will he get a price that is high enough to ensure that the

net loss on the investment will be sufficiently small as to provide a measure of insurance against the worst-case scenario?

It is hard to overstate the importance of this last, largely unconsidered, factor: commercial activity is largely underpinned by the degree of confidence entrepreneurs (including farmers) have in the existence of a market for their assets if they ever have to walk away from them. The vibrancy of this market makes it possible to take bets on the future in the knowledge that the downside-risk is limited by the ability to sell one's assets at a reasonably robust price. If the secondary market for businesses and business assets is weak, however, that fact alone magnifies the risks that are inherent in all commercial activity. And, as even a moment's reflection will confirm, these markets are driven by sentiment, so that if future expectations darken, prices in the secondary market for businesses will fall. And, as those prices fall, businesses will become more wary of making new investments for fear that they will not be able to recoup a sufficiently large fraction of their costs if they are unable to turn a profit.

"Almost no new generating capacity has been added to the grid even as the performance of existing power plants has deteriorated"

And this, ultimately, is the key fact about the kinds of commercial investment that is needed to drive growth: it is sensitive to expectations about the future – both future costs and future revenues.

Bad governance and poor policies have shredded confidence in the future

As described above, for the purposes of this report, we are using the term "policy" to refer to the *what* of government's agenda (what is it doing or trying to do?), while we use the word "governance" in relation to discussions about *how* it goes about its work (Is implementation efficient, effective, non-corrupt? Does it follow established rules or make these up as it goes along?) And, as should be clear, we think that neither the policy choices nor the quality of governance of the past 13 years has been suited to ensuring more rapid growth. In the next sections we offer quasi-case studies in how bad policy and/or bad governance– they are, we admit, not always easily disentangled – have undermined growth. We begin with the most significant example: Eskom.

Poor policy and bad governance at Eskom

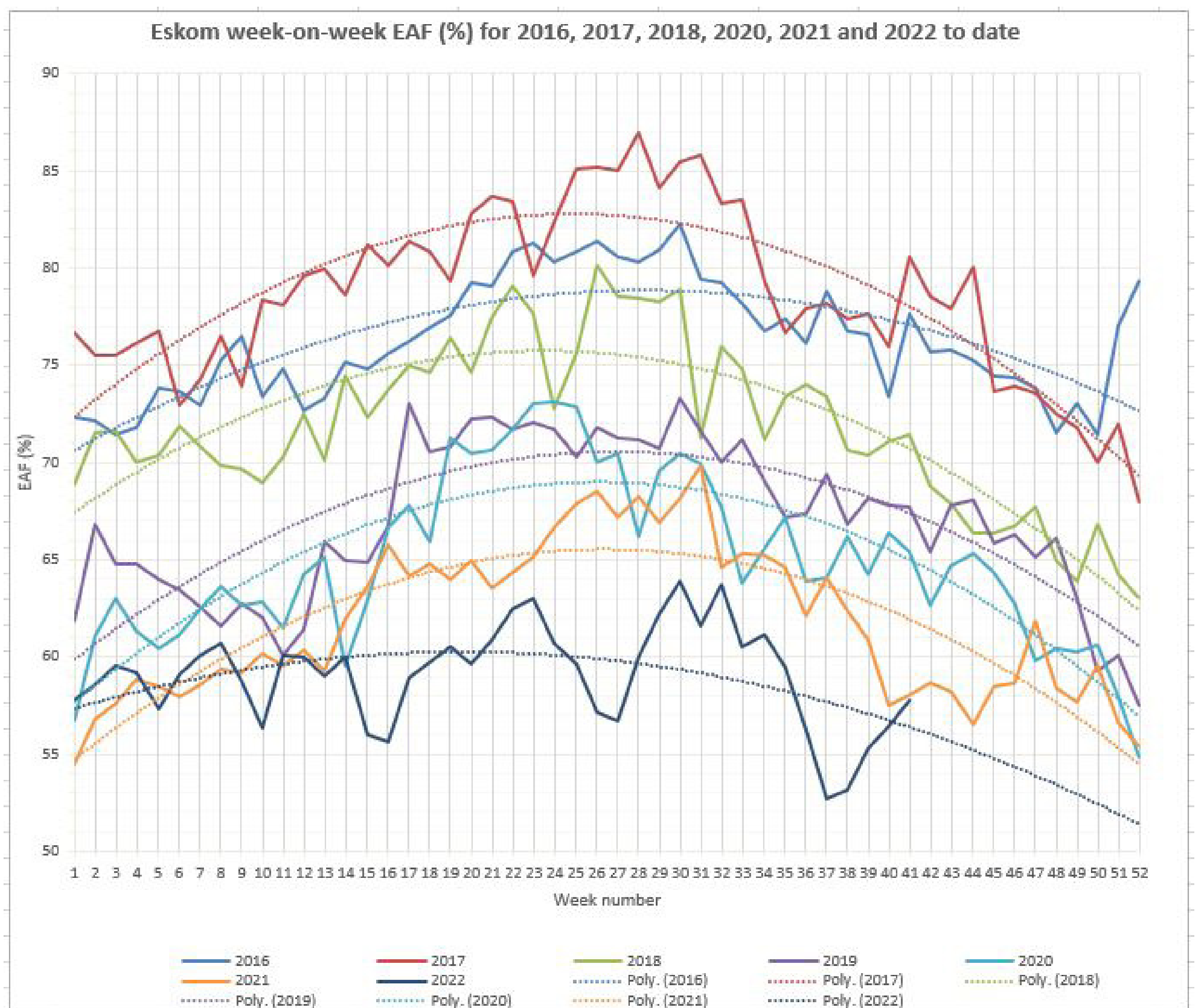
Inadequate energy-supply is South Africa's most critical constraint on growth because we do not have enough generating capacity to keep the economy running to its existing capacity, much less to supply even more users.

The key to this malaise is a policy choice that, until recently, ensured that Eskom enjoyed as close as was humanly possible to a monopoly position in the generation of electricity, even as global experience made it abundantly clear that the generation of electricity is much more efficient and reliable if there are multiple providers competing with each other. The long-term failure to create a market for generating electricity, has meant South Africa relies almost exclusively on Eskom for its power. Indeed, that was, in many ways, the point of the policy: proponents of the "developmental state" believed (and, astonishingly, purport to still believe) that a state-owned power company was essential for development.

> **"The speed at which public debt levels have risen in South Africa has had very significant effects on growth"**

But the policy of maintaining Eskom's monopoly has had a critical weakness: it has meant that the collapse of governance through corruption and incompetence at Eskom has had catastrophic implications for the whole country. The most obvious example of this is the R400 billion that Eskom ploughed into two power stations that don't produce the power they are supposed to. Almost no new generating capacity has been added to the grid even as the performance of existing power plants has deteriorated, with the amount of power actually available from Eskom's fleet on any given day falling each year relative to the year before from something like 70 percent in 2016 and 2017 to something more like 55 percent now (Figure 4). This, even as prices have soared.

Figure 4: % of potential generating capacity that is actually available to Eskom: 2016-2022



Source: Chris Yelland

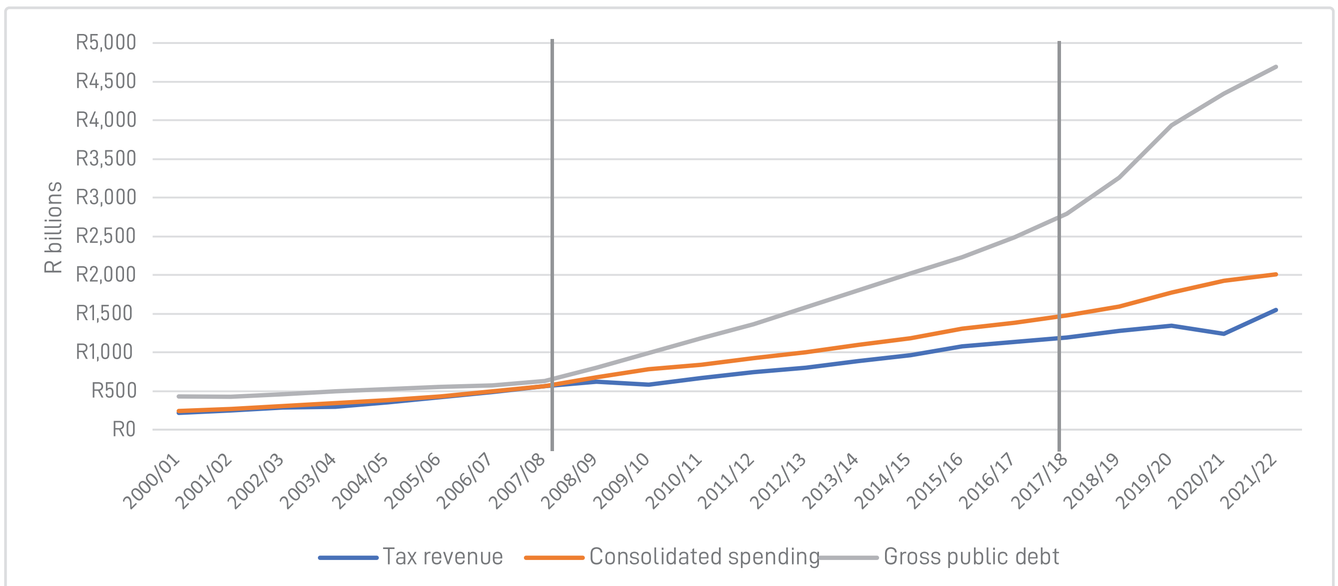
> **"To what extent corruption has moderated under Cyril Ramaphosa is an open question"**

Eskom is a particularly egregious example of how poor policy and bad governance have combined to wreck South Africa's growth prospects. Unfortunately, there are many more. The next sections review a (sadly) partial list of some of the more important of these.

Fiscal policy

In recent years, CDE has authored a number of reports on the dire state of South Africa's public finances. These have focused on the rapid rise in public debt, noting that this has increased nearly eight-fold from around R630 billion in 2007 to nearly R4.7 trillion now. This rise, and its proximate cause, is evident in Figure 5, which shows that until 2008/09 government's revenues and expenditure were in rough balance which meant that levels of gross debt rose slowly. That all changed soon after the global financial crisis, when a large, structural gap opened up between government's revenues and its spending with the result that government had to borrow more and more in order to fund its activities. Nothing has changed since then, except that the gap between spending and revenues has continued to widen, especially after 2018, leading to ever-increasing levels of debt. Indeed, if one were to include the debt of the state-owned companies, sovereign and quasi-sovereign debt levels have increased even more rapidly than reflected in Figure 5.

Figure 5: Government's revenues, expenditure and gross debt: 2000 to 2022



Source: National Treasury, budget documentation, 2022

There is no hard-and-fast rule that growth slows the moment a country hits a particular level of debt to GDP. However, the speed at which public debt levels have risen in South Africa has had very significant effects on growth. The two most important channels for this are: (i) debt service costs have risen very quickly, absorbing a rapidly rising share of tax revenues and diverting them from more productive uses, and (ii) raising real interest rates in the economy, which increases the cost of borrowing for everyone, including anyone who would like to invest in a business.

Of the two channels, the rise in interest rates is probably the more important because underlying it is a deepening concern about South Africa's capacity to service its debt. The rise in interest rates, in other words, reflects a concern that the economy isn't able to bear the weight of our collective debt. That reflects both the quantum of debt itself and, just as importantly, the fact, obvious to all, that the rise in debt has not been matched by the accumulation of assets that have any prospect of generating sufficient additional income to pay for the debt that has been incurred. Stated bluntly, high and rising interest rates reflect growing concerns about South Africa's creditworthiness.

"High-and-rising levels of crime are bound to undermine faith in the future"

It is hard to say how much of the deterioration in South Africa's public finances is about poor policy and how much a result of bad governance. On the one hand, the emergence of the gap between tax revenues and public spending is the result of deliberate policy choices. These include the faster-than-inflation increases in the salaries of public servants between 2008 and 2020, the surprise announcement by Jacob Zuma of fee-free higher education for poor young people for which no provision had been made in the budget, and the unwillingness of government to raise taxes. These are policy choices that could have been made differently and which may have led to different outcomes, so the rise in debt is partly a consequence of bad policy. On the other hand, the fact that these decisions were made, generally in face of explicit warnings from the National Treasury about their unaffordability or about the need to choose between different policy priorities, suggests that the rise in debt is also a result of declining governance, and, in particular, an unwillingness of policy-makers to accept the existence of budget constraints, or of the need to confront and make difficult decisions. A wilful blindness to the consequences of unsustainable fiscal policies, in other words, is a red flag for bad governance.

Corruption

One area in which governance failures are undeniable and in which they have had enormous consequences is in the realm of corruption, the scope and scale of which reached breath-taking proportions under the benighted presidency of Jacob Zuma. The costs are not easily quantified, but the Zondo Commission found that over R57 billion was paid by the state on corruption-tainted contracts to entities associated with the Guptas or their middlemen. Whether and to what extent corruption has moderated under Cyril Ramaphosa is, sadly, an open question. What is true, however, is that, however great you may believe the reduction in corruption under President Ramaphosa has been, no-one can deny that corruption continues to take place. Nor can anyone deny that there is a very real risk of reversion to a regime of increased corruption, a risk, in other words, of the emergence of state capture 2.0.

Past corruption, current corruption and the risk of future corruption are enormously important drivers of South Africa's declining economic potential and of the increasing costs of doing business. The impact is felt through a number of channels, with the most important being:

- The direct loss of resources that might be used to fund development and service delivery as funds are siphoned out of organisations, government departments and municipalities.
- A reduction in the quantity and quality of goods and services provided by the state, many of which are also procured at higher cost because tenders did not go to the lowest-cost bidder.
- The appointment of leaders who are simply incapable of leading or running the institutions for which they are responsible (e.g. Dudu Myeni, who chaired the board of SAA from 2012 to 2017 but who has

subsequently been declared a delinquent director for the numerous failures of governance under her watch, being a case in point), leading to declines in morale, efficiency and effectiveness, and a metastasizing of corruption as corrupt leaders insert officials who would do their bidding (or who would not stand up to them) into the organisation they lead.
- The imposition of increasingly onerous rules to govern public procurement and auditing – introduced generally after the horse has bolted – that make it harder for competent, honest public sector managers to produce the goods and services they are employed to deliver, and, in some cases, impose inordinate delays in the procurement of essential goods and services.
- A reduction in the legitimacy and credibility of government affects tax morality, which, in turn, reduces tax revenues, increasing government's borrowing requirement while also raising the cost of collecting taxes

As important as these effects are, perhaps the most important consequence of corruption of the scale South Africa has witnessed is that, by opening this Pandora's Box, it reveals to citizens, investors and businesses how little protection the economy has from grand corruption. This realisation has profound and long-lasting effects on expectations of the future because everyone now knows that if state capture happened once, it can happen again. Even if this outcome is not inevitable, factoring even the possibility of state capture 2.0 into expectations about the future means that investments must be deemed to be less likely to generate necessary returns. That, in turn, slows investment and, therefore, growth.

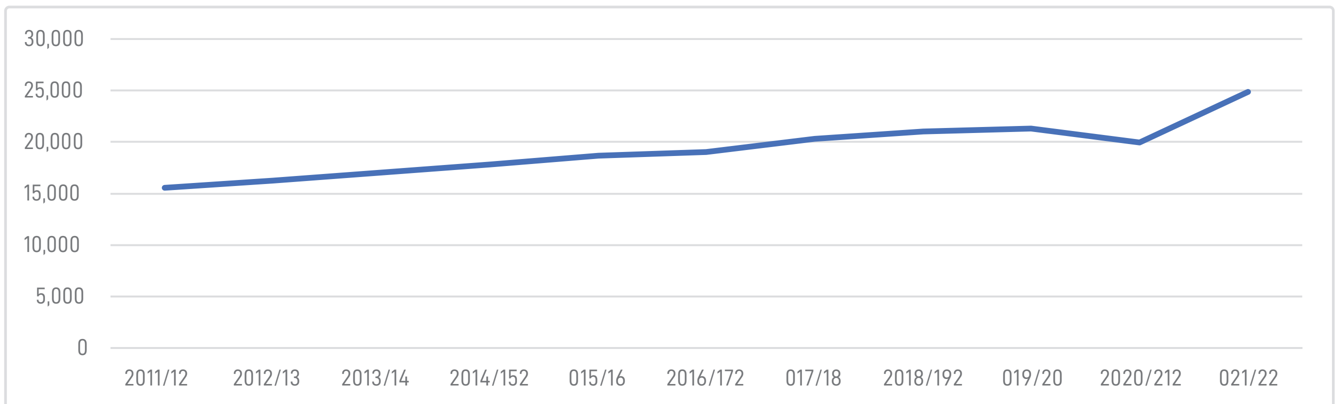
Crime and stability

Crime is a form of governance failure that is related to corruption because both reflect a failure of the rule of law. The nature of the failure, and the consequences, of "ordinary" criminality are somewhat different, however, than those of corruption in that crime represents direct losses to firms and households (who are its immediate victims), while the costs to firms and households from corruption are more indirect.

"The events of July 2021 have exposed the fragility of public order in South Africa"

Poverty, unemployment and inequality are all important drivers of crime rates, and it would be unrealistic to think that a country with our socio-economic profile would have low levels of crime. It is, nevertheless, also true that South Africa's justice system (policing , prosecution and imprisonment) has become less effective over the past decade. It isn't easy to find statistics that confirm this, but the most obvious fact is that murder – the category of crime that is best reported and recorded – has risen by almost 60 percent over the last decade from around 15 500 in 2011/12 to nearly 25 000 in 2021/22, with much of the increase being recorded in 2021/22 (Figure 6). In addition, and reflecting a new trend, the police recently reported that figures for kidnappings for ransom had increased by more than 60 percent since last year, to almost 1 150 per month.

Figure 6: Murders recorded by the SAPS, 2011/12 to 2021/22



Source: SAPS data

Individuals' feelings of safety are important determinants of their confidence in the future of their society, and high-and-rising levels of crime are bound to undermine the faith in the future that is needed for people to commit resources to projects with long-term pay offs. More importantly, because the management of crime is regarded as a core function of government, failures in this domain have consequences for the way that people perceive government as a whole, and impact directly on its credibility and legitimacy.

> **"Not only could (corrupted) ministers appoint Transnet's board, but Transnet's customers had nowhere else to go"**

In addition, high levels of crime directly reduce economic activity through losses to theft and violence, high costs of insurance, increased expenditure of security, etc. Not all of these expenditures reduce GDP – security companies and security guards are performing valuable services, the value of which is counted in GDP – but it is reasonable to think that devoting resources to these activities does not expand an economy's productive potential. If so, it means that higher crime-related spending means slower growth. Moreover, when businesses can't protect themselves from crime, the threat of crime directly reduces business activity – a factor that may be an important reason why South Africa's informal sector is much smaller and less dynamic than one would expect. High levels of criminality also affect what is economically possible: if workers feel unsafe getting to or from night shifts, then employers may restrict production to day shifts; if customers feel unsafe, night markets are impossible.

If high levels of "ordinary" crime have significant effects on economic activity, some emerging forms of criminality are even more concerning and have even greater impact. The theft of copper cable from the electricity grid and from Transnet's railway lines – they recently reported that more than 1 500km of cable was stolen in the last financial year – has huge implications for economic output, for example. The trucking industry – a critical part of the supply chain for every kind of economic activity – has recently seen hijacking spike by 30 percent. The growing phenomenon of construction and procurement mafias (even when they call themselves "local business forums") has affected swathes of business activity across the economy, especially in KwaZulu-Natal. The economic effects of these kinds of criminality are many orders of magnitude greater than the value of the ill-gotten gains accruing to those who commit the crimes, and the effects on both output and long-term growth prospects are incalculable.

Finally, the events of July 2021 – whether one calls them an insurrection or a food riot – have exposed the fragility of public order in South Africa, with huge implications for levels of confidence and investment. Indeed, anecdotal evidence suggests that some parts of KwaZulu-Natal have become effectively un-investable because insurance companies refuse to extend cover in those areas. It is absolutely critical that the events are never allowed to repeat themselves, but few can have confidence in this, especially since so little appears to have been done by law enforcement agencies to deal with those involved and those who may have instigated the events.

Logistics and Transnet

Compared to the highly visible woes of Eskom, the extent to which Transnet's services were both unreliable and expensive had generally managed to slip under the radar of popular consciousness. That is no longer true, however, and there is wide and deepening awareness that the organisation is struggling to deliver the services it is supposed to provide, does so at a high cost, and is in an increasingly precarious financial position.

"When measured in terms of physical output rather than revenues, South Africa's mining industry has stagnated for decades"

For obvious reasons, efficient logistics is critical to ensuring competitive commercial and industrial activity since undue delays and high costs impact up and down a supply chain. In some cases poor logistics systems merely adds inconvenience, but much more commonly it means higher costs for customers. In other cases – especially in relation to fresh produce – logistics-related delays can make it impossible to export some kinds of product (such as berries). In the case of mining, inefficiency and declining annual freight tonnages mean not only reduced sales for mining companies, but dramatically reduced incentives to invest in new mining capacity. South Africa's freight association estimates the costs to the economy as being greater than R1 billion per day.

There are many indicators of the deterioration of South Africa's freight and wider logistics systems:

- Freight volumes moved by Transnet Freight Rail have fallen every year since 2018, falling from nearly 220 million tons to 175 million. In a high fixed cost business, this translates directly into reduced profits or increased losses.
- The infrequency and unreliability of trains hauling mining ores to Richards Bay is estimated to be costing the South African economy over R100 billion a year in foregone exports, with the effects falling heavily on mining and forestry sectors.
- Freight lines – especially the critical line that connects Gauteng to Durban – are so unreliable as to force businesses to truck goods to and from ports. Apart from the enormous damage this does to the roads, this is expensive, carbon-intensive and dangerous both to other motorists, and, in light of the rise of apparently xenophobic attacks, to drivers.
- Ports are slow and expensive, with South Africa's container ports all being rated in the bottom 10 positions in a recent World Bank estimate of the efficiency of nearly 400 ports across the world, a result of the long delays outside ports waiting for quay space, the slow pace at which loading and unloading takes place, and the high costs of the services provided by the terminal operators.

Apart from the poor performance of the logistics network itself, there are growing indications, and considerable recent reportage, to suggest that the commercial viability of Transnet is increasingly open to question, that it is losing skilled and experienced staff, and that it is likely to place more and more strain on the fiscus if it is to continue to function.

Copper cable theft is both a cause and a consequence of Transnet's organisational challenges: on the one hand, the costs of cable theft in lost revenues (as trains don't run) and in replacing what has been lost or damaged, have reduced Transnet's revenues and increased costs; on the other, that cable theft can happen at the scale it does is a reflection of poor management, the acts and omissions of staff, and a failure to take sufficient care of the infrastructure that it owns and for which it is custodian for all South Africans.

"State capture would not have been possible if Transnet were not a state-sanctioned monopoly provider of logistics services"

Much of the decline in Transnet's organisational and commercial integrity can be traced to the malign impact of state capture, the costs of which fell especially hard on Transnet's modernisation programme which was thoroughly corrupted and about which the Zondo Commission made very damning findings. However significant state capture was to Transnet's present woes, it is important to note that state capture would not have been possible if Transnet were not a state-sanctioned monopoly provider of logistics services. This meant that not only could (corrupted) ministers appoint Transnet's board, but, critically, that Transnet's customers had nowhere else to go – which meant that revenues would continue to flow into Transnet's coffers irrespective of the price and quality of its services.

Transnet's monopoly is also relevant to explaining why its services have declined and costs have risen. This, too, is because Transnet's customers are a captive market – no matter how badly they are served, they must go through Transnet's ports and receive quayside services from Transnet's terminal operators and use Transnet's railway infrastructure and Transnet's trains. Some, but not all, of Transnet's prices are regulated, which, in principle means that Transnet cannot over-exploit its monopoly position. The problem, however, is that the regulator sets prices partly on the basis of Transnet's costs of providing services. If those costs are higher than they should be because Transnet mismanages its equipment and personnel, the regulator will ultimately accommodate those inflated costs when it sets prices. Either that, or Transnet will be bailed out. The net result is that, one way or another, customers or tax-payers must pay for Transnet's inefficiency. Without any competition from other providers, there is no risk of customers walking out the door, and, therefore, no market discipline on Transnet's operations and government is ultimately on the hook for its financial performance.

Mining

Mining has been a mainstay of the South African economy for almost 150 years, and, while its contribution to GDP is much smaller than it once was, it still accounts for the majority of our export earnings. Nevertheless, when measured in terms of physical output rather than revenues, South Africa's mining industry has stagnated for decades. Here there are both problems of policy (some bad decisions about how to regulate the industry) and of governance (corruption in, and the weak administration of, the regulatory system).

Examples of poor policy abound, but include:

- An empowerment model that, because of the uncertainties about whether government is committed to the principle of once-empowered-always-empowered, has resulted in much more investment risk than necessary, resulting, inevitably, in lower levels of investment;
- Uncertainty about the future trajectory of tax policy in the industry (especially the level of corporate taxes, royalties and carbon taxes, particularly in light of the Minerals and Petroleum Resources Development Bill), has added further risks and costs to corporate planning frameworks and investment prospects;

- The level of industry wages, combined with the rigidity and universality with which these wages are applied to all mines irrespective of their productivity and the quality of their ore bodies, means that some mines (or shafts) have become commercially unviable.

"The crisis in passenger rail is enormous, especially the critical commuter rail networks run by Prasa"

Apart from these examples of poor policy, bad governance has also contributed to the stagnation of output. The two most important forms of bad governance that have impacted on mining have already been mentioned: the rapid rise in the price of electricity along with the increasing unreliability of supply; and the rapid decline in the reliability of the logistics system, especially the rail network and the ports. A third factor that has also been mentioned – though its importance relative to the others is harder to guess – is the rise in crime directed at the industry. It, too, is an important manifestation of bad governance.

While these generic forms of bad governance have impacted on the mining industry, there are also sector-specific policy domains in which bad governance has undermined growth. Here, special mention must be made of the Department of Minerals and Energy, whose failure to deliver mining and exploration licenses, to design and implement a modern cadastral system that would clearly set out the disposition of mining rights, and to invest in geological surveys, has helped ensure that South Africa has become an increasingly unlikely/undesirable destination for mining companies seeking to expand their output. All of which would be bad enough, but the effects of which are compounded by the perception of deepening corruption in the awarding of mining rights.

According to Roger Baxter, CEO of the Minerals Council of SA, the results of poor policy and bad governance are evident in that:

- R30 billion worth of capital projects in the mining industry are awaiting regulatory approval,
- There is a backlog of 4 500 mining and prospecting licences at the DMRE,
- It takes an average of 18 months to get environmental and other approvals, and
- It takes an average of more than 350 days for mining and exploration licence applications to be processed (compared to about 40 days in Botswana).

Decaying public infrastructure

Perhaps the most obvious way in which the country's endowment of capital has diminished, especially over the past decade, is its physical infrastructure, especially public infrastructure that is necessary for efficient production and trade. The most egregious example of losses to the stock of physical infrastructure is the deepening crisis of electricity generation and distribution we face as the power plants fall apart and the grid is stripped of copper cables. But electricity is far from being alone in this deteriorating state, and the draft National Infrastructure Plan 2050 reports a R2.2 trillion funding gap for infrastructure. The challenges are enormous and run right across the infrastructure portfolio:

- Even in comparison to freight rail described above, the crisis in passenger rail is enormous, especially the critical commuter rail networks run by Prasa in Johannesburg, Cape Town, Durban, Gqeberha and Tshwane, while the branch lines that once connected smaller centres to the main passenger network no longer exist: in 1997 the rail system serviced 774 000 passenger trips per day in Cape Town. By 2019 it is estimated that less than 200 000 passenger trips per day, less than one third of the network's capacity.

- Out of 995 wastewater systems in South Africa, only 23 met 90 percent of the relevant standards, conversely over 440 were deemed to be in a critical state, complying with less than 30 percent of the relevant standards.
- Estimates of the extent of the costs of eliminating the maintenance backlog for South Africa's roads run into the hundreds of billions of rands, with the largest backlogs being for the thousands of kilometres of gravel roads for which provincial governments are responsible. Concerns about the quality of roads in many of the metropolitan areas have risen, with Johannesburg's potholes becoming an increasingly serious problem.
- Concerns about the state of South Africa's water infrastructure have been around for many years, but became acute in 2022 when "watershedding" was implemented in Johannesburg despite the dams' being full, with the immediate problem's being attributed to declining reliability and efficiency of the pumping stations serving a city that is famously among the largest cities in the world that is not on a natural body of water.

"Only 16 percent of SA's 257 municipalities received clean audits in 2020/21"

It is not just network infrastructure that is decaying: the infrastructure of government itself is in an increasingly parlous state, exemplified by the fact that the Houses of Parliament burnt down last year in part because essential safety equipment had been neglected. South Africa's schools, police stations, courtrooms, Home Affairs' offices and hospitals (exemplified also by a fire, this time at the Charlotte Maxeke Hospital in Johannesburg) are increasingly ill-maintained. Add to that the loss to theft of equipment, and it's clear that productivity levels in government are being held back, in part, by reductions in the quantity and quality of the physical capital with which officials undertake their work.

As anyone who has stood in a queue to renew a driving license or apply for a passport knows, the phrase "system offline" has become something of a national proverb, and it reflects the reality that, despite billions spent on it the state's IT infrastructure, its systems represent another source of inefficiency because they are mainly old, slow and unreliable. They have also been the subject of numerous cyberattacks, including, reportedly, ransomware attacks on the Department of Justice, International Relations and Transnet.

There are two main reasons why South Africa's infrastructure has decayed: a lack of proper maintenance of what infrastructure exists, and insufficient investment to expand existing networks and facilities. These deficiencies are, in turn, a consequence of inadequate resourcing of these needs, poor procurement systems that add delays and raise costs, and poor management of the networks. Apportioning responsibility between these causes is not possible, but it is possible to identify particular policy and governance challenges that need to be addressed. Probably the most important of these is cadre deployment, the effects of which on the quality of the management of networks and infrastructure has been staggering because of the combination of the deployees' lack of knowhow and, in far too many cases, their active corruption.

Through its impact on the quality of public infrastructure, cadre deployment has been among the most damaging policy choices of post-apartheid government. It has resulted in unqualified people being appointed to positions of significant responsibility for the management of institutions, their staff and their resources. The results of this are visible in declining performance across government entities. Cadre deployment creates fundamental conflicts of interest for deployees who cannot fully and faithfully serve both the ANC's interests

and those of the organisation to which they are deployed and to which they owe fiduciary duties in law. These conflicts need not always result in the kind of looting that took place under state capture, but there is an obvious risk of this, and it is one that has materialised all too frequently for anyone to think that this is an unexpected by-product of an otherwise benign policy.

"Some kinds of policy intervention are always likely to be growth-inhibiting irrespective of how they are implemented"

If cadre deployment is the original sin of South Africa's decaying infrastructure, it has been reinforced by the unwillingness of government to ensure that users of infrastructure pay for what they owe. Eskom has many problems, but all of them are deepened by the fact that too many of its customers do not pay for the electricity they consume. Outstanding debts to Eskom – estimated at R60 billion – mean that the organisation suffers cashflow problems that result in less maintenance of its infrastructure.

The debacle relating to Gauteng's e-Tolls is another example of this failure to enforce payment for services delivered: having made the entirely defensible policy decision to ask users of Gauteng's freeways to pay for them through tolls, government bowed to sustained pressure from motorists and ultimately reversed the decision. Not only is this reversal bad for the maintenance of Gauteng's freeways, it has implications for the much-touted desire to expand the number and range of public-private partnerships in infrastructure delivery. If investors do not believe that government will enforce a user-pays principle on users of infrastructure procured through PPPs, it will be impossible for government to shift any of the risk of these projects to investors who will demand more significant financial guarantees from government. This both reduces the range of viable PPPs and raises their costs. The net result is that initiatives like PPPs that are intended to mitigate the damage done by poor management by public bodies and SOCs are unlikely to succeed.

Local government

Deficiencies in South Africa's infrastructure are intimately linked to the travails of local government, the competence, integrity and solvency of which is in deep decline. Local government is, after all, primarily charged with a range of infrastructure-related responsibilities: providing roads, water, electricity-distribution and sewerage systems, along with urban development and housing functions. For the most part, challenges in this domain relate less to poor policy choices than to bad governance.

The capability of South Africa's local governments has deteriorated for reasons that are common to other institutions: poor leadership, a lack of knowhow/experience in too many positions, and deepening corruption. As a result, only 16 percent of SA's 257 municipalities (41 in total) received clean audits in 2020/21, and the Department of Cooperative Government and Traditional Affairs declared that 64 were "dysfunctional". In February 2022, more than 30 municipalities were under administration or provincial intervention.

All of this has had profoundly effects on residents' quality of life, particularly those who are least able to protect themselves from the impact of poor service delivery. From the point of view of economic growth, however, one of the key effects is that the declining quality of local infrastructure has been to raise the costs of doing business. So much so that there have been numerous cases of businesses reporting that they have had to provide/maintain the requisite infrastructure for themselves (e.g. by repairing roads or water mains without which their businesses become unviable). In other instances, reports show that businesses have shut up shop in one place in order to reopen in a better-managed municipality where the environment is more suited to doing business.

"The simple fact is that the goal of empowerment policy is not to facilitate commercial expansion; it is to change the distribution of the benefits of existing commercial success"

These challenges are reinforced by less visible, but nonetheless important, deficiencies in local government performance. Too many local governments are unable to prepare accurate and reliable statements of account, for example. This makes the administration of ordinary life more difficult, but can also result in more profound problems: if properties cannot be transferred in the absence of a rates clearance certificate, for example, but the municipality cannot issue such a certificate, administrative processes become obstacles to commercial and economic life. This kind of administrative inefficiency is typically resolvable, and, by itself, is probably not all that costly for the residents or the economy. When it is one of a large number of administrative "hassles", however, the impact grows exponentially, as residents and businesses find themselves having to allocate more and more of their time and energy to administrative tasks. For households, and for small and/or informal businesses, the effect can be enervating and will impact on the overall efficiency of the economy.

BEE and localisation

If the problems for economic growth created by local government are mostly generated by bad governance rather than poor policy choices, some kinds of policy intervention are always likely to be growth-inhibiting irrespective of how they are implemented (though, of course, some might argue that slower growth is a price worth paying). Two such areas are policies aimed at economic transformation, and, in particular broad-based black economic empowerment (BBBEE) policy and a variety of industrial policies, especially industrialisation-through-localisation.

Localisation

Localisation – the DTIC's preferred approach to industrialisation – is a set of rules that government purchase some kinds of goods exclusively (or nearly exclusively) from local producers. There have also been attempts to expand the remit of localisation activities through "industry masterplans" between government and business, in which business agrees to increase the proportion of local producers in their supply chains, albeit that those kinds of localisation commitments are not legally enforceable.

There is no question that some firms will benefit from policy support of this kind. CDE has long argued that those benefits, however, are at the expense of other economic actors – in particular tax-payers and/or the recipients of public services. This is because products designated for local procurement are almost certainly more expensive or of a lower quality relative to possible imports. If this were not the case, after all, what would be the point of mandatory local procurement in the first place?

An outcome in which public services or infrastructure is "merely" more expensive than it might otherwise be is, in many ways, the best outcome for localisation policy. In practice, outcomes are often far worse than this because broad-brush localisation policy sometimes requires government agencies to buy local goods even when those goods are not manufactured locally. When this is the case – as the CEOs of Transnet and Eskom have complained – the result is that procurement processes freeze until special permission can be obtained to deviate from the requirement to buy local. The result is not just higher costs, but the non-delivery of infrastructure and services that may be important for growth.

Making matters worse, to the extent that localisation succeeds, it will often do so by strengthening an already-dominant local firm, which is obviously best placed to benefit from those policies (and may even have been the motive force for the designation of those goods for local procurement in the first place). This will strengthen the firm's dominance, and, in doing so, will weaken the discipline imposed on that firm from competition in the market. Over time, this will erode that firm's incentives to remain efficient and to innovate. The result? Less innovation and less productivity growth and, therefore, less economic growth.

Black economic empowerment

Nobody disputes the desirability of the goals of BBBEE policies: it is self-evidently true that the distribution of participation and ownership in a post-apartheid economy has to be representative of the population. It is equally evident, however, that the programmes and policies aimed at achieving this have costs as well as benefits, that the pursuit of such policies can and does lead to abuses of the policies themselves, that there is enormous potential for dissatisfaction among individuals who feel left behind by such policies, that demands for empowerment will tend to grow constantly, and that the economic empowerment of a narrow elite will become politically contentious. Given all of this, one would struggle to find anyone who thinks that the actual policies that have been adopted have been successful.

"President Ramaphosa, for all his eloquence, has presided over a Cabinet full of mediocrities"

There is no need here to review all the criticism of BBBEE, most of which revolves around the fact that empowerment has been too narrow and that it has been pursued at the expense of policies that would have led to more inclusion and less poverty. Our focus, instead, is on the impact of BBBEE on economic growth. There are, essentially, three ways in which BBBEE has impacted on South Africa's growth:

- It has diverted resources and energy away from building businesses by both established business and emerging entrepreneurs;
- It has generally raised the costs of doing business;
- It has introduced new uncertainties that affect investment plans.

Designing and implementing BBBEE strategies in a business is complex: if shares are to be sold, then it matters a great deal that the right partners are found, that the deal is well- structured, and that the empowerment entity is able to raise the requisite capital to finance its stake. None of these steps is easy, and, inevitably, mistakes are made. The chosen partners may turn out to be unsuited for some reason. Financing may be raised on the basis of overoptimistic projections of future growth, putting empowerment partners in financial distress. And, even when the deal succeeds in its own terms, there is no reason to assume that this translates into growth for the company, for the simple fact is that the goal of empowerment policy is not to facilitate commercial expansion; it is to change the distribution of the benefits of existing commercial success. That may be viewed as a necessary and desirable policy goal, but, to the extent that businesses incur expenses, and to the extent that businesses' managers are diverted away from running their businesses in order to achieve the goals of empowerment policy, a focus on empowerment must mean that less attention is devoted to growing the business itself.

In the same vein, it is worth noting that the promise of rapid wealth accumulation for the beneficiaries of BBBEE deals skews commercial incentives dramatically and means that black businesspeople invest their energies in pursuit of these deals rather than the more uncertain and potentially less-rewarding (financially)

process of building a businesses. Scarce talent, in other words, is diverted towards deal-making rather than business-building, with costs for the economy as a whole.

A second channel through which BBBEE impacts on growth is that it raises the costs of doing business. This is most obvious in government, where explicit provisions in procurement rules allow (and sometimes require) departments to choose a higher-priced good or service if it comes from an empowered business. Worse, until the regulations were deemed unconstitutional by the Constitutional Court in 2022, government agencies could exclude from consideration any tenderer who did not meet predefined empowerment thresholds, usually driven by the extent of black ownership of the entity. Even if these regulations did not make possible some forms of corruption that would otherwise be impossible, they would still lead to higher-than-necessary costs simply by reducing the amount of competition for tenders.

Similar considerations apply to businesses that seek to improve their empowerment scores through their supply chains, an approach that ensures that empowered firms are able to charge a premium relative to untransformed firms, who, again, may simply not qualify for consideration to provide some kinds of goods and services. These are costs that some would deem to be worth paying. What they are not, however, is a recipe for competitiveness and growth.

"A country with as many crises as ours needs solutions. No feasible solutions will emerge without exceptional leadership"

Perhaps the most profound impact of BBBEE on South Africa's growth potential, however, is through the effect these policies have on expectations, especially since the policies seem to be in a perpetual flux of revision and restatement. Consider the case of empowerment in the mining sector, where the once-empowered-always-empowered rule has been a source of profound disagreement between government and the industry: how this is resolved will make a big difference to the long-run costs of BBBEE policies in mining. But even if the rule is ultimately decided in favour of business, how can investors ever be entirely certain that a future government will not revise the policy? Or consider this question: is there any reason why a 25 percent ownership target in the mining charter should be considered a stable equilibrium? What prevents some future policy-maker from raising it to 50 percent or 75 percent? Mining is an industry in which the time it takes to break even can be measured in decades, so any doubts about whether empowerment targets will rise over that time must be reflected in investment decisions taken in the here and now. The more uncertainty there is, the less investment there will be.

Leadership that isn't

A country with as many crises as ours needs solutions. But no feasible solutions will emerge or be implemented without exceptional leadership. That has not emerged in South Africa, where President Ramaphosa, for all his eloquence, has presided over a Cabinet full of mediocrities who are either incapable or unwilling to address the challenges they face in their portfolios. He has governed by establishing well-intended-but-ineffectual committees while leaving in place ministers who bend and break every prescript of the ministerial handbook and who openly question his agenda. He has signally failed to articulate a compelling analysis of the state of the country and the causes of decay, much less developed a plausible strategy for addressing it. Instead he has promised to build smart cities and ride the wave of the fourth industrial revolution in a country where the vast majority of learners cannot read for meaning or do long division. In the immediate aftermath of the riots

of July 2021, he insisted that what had happened was a failed insurrection; nearly 18 months later, any thought that those who led the insurrection be criminally charged has been long forgotten.

Lacking a plan, it is no surprise that President Ramaphosa has failed to communicate a plausible path out of the polycrisis, and that his government is characterised by ad hoc responses to the inevitable crises in such a situation. Sadly, it is increasingly the case that, to the extent that he enjoys support, it is largely because anyone in his party who might plausibly replace him is self-evidently worse.

This is no way to deal with a country in crisis, and certainly not one that is as deep, as long-lived, as complex and as multi-headed as the one we face now. Indeed, the lack of decisiveness, the inability to prioritise and to accept trade-offs, the failure to hold ministers and officials accountable, the retention of cabinet members under the cloud of corruption: all are now accelerants for the general crisis. If the president cannot act because he is either personally incapable of doing so or because he faces insurmountable political or personal constraints that make decisive action impossible, then that, too, must be factored into assessments of the likelihood of future progress and future prosperity.

"The lack of presidential leadership is one of the reasons why South Africa is in a hole"

The lack of presidential leadership, in other words, is one of the reasons why South Africa is in a hole and why that hole is deepening.

Summary

The argument of the preceding pages can be summarised as follows:

- There is no reason to think that economies always grow since for most of human history, they didn't.
- When economies do grow, it is because one or both or two processes is occurring: (i) the economy is accumulating more productive resources (especially physical and human capital), and/or (ii) new technologies are allowing the society to combine the existing stock of productive resources more efficiently to increase output.
- South Africa's stock of productive assets has been declining over time because of low levels of investment. This has meant that South Africa's productive potential is shrinking, and this trend slows growth.
- Investment levels have been low because of declining confidence in the future.
- Declining levels of confidence are a consequence of poor policy (*what* government does) and bad governance (*how* government works).
- Those poor policies and bad governance are not a figment of nay-sayers' imagination; they manifest across a range of domains, from electricity and logistics to BBBEE and local government, from high levels of corruption to deteriorating confidence in mining policies, from catastrophic levels of corruption to unsustainable levels of public spending and debt and finally to a complete failure to deal with criminality.
- The consequence of poor policy and bad governance is that the costs of doing business are higher than they should be, and the potential rewards from investment are lower and more uncertain. The result is lower expected returns on investment, which leads to lower levels of investment and less growth.

The effect of inadequate investment on the stock and quality of South Africa's physical capital is increasingly apparent in the poor state of the roads, our collapsing energy generation and distribution systems, stripped train stations and rail lines, and the fires that have razed government buildings to the ground. Add to this the risk of expropriation and the near-certainty that taxes will rise at some point, and it is very hard to make a case for investing in South Africa's future. The result? More and more businesses and households are voting with their feet: investing elsewhere and moving elsewhere.

What we have is not a growth strategy; it is an anti-growth strategy.

All of this is compounded by a devastating lack of leadership. Political leadership is a key part of South Africa's dilemma. The president is after all responsible for both key policy choices and the way in which they are implemented. He is the leader of government and elected by Parliament as the leader not just of his political party but of the country as a whole. And yet he consistently fails to govern in the interests of the country rather than the elite of his own party. At no time has he provided a frank, comprehensive and compelling diagnosis of South Africa's ills. Instead, he tries to manage crises by offering 'solutions' that seldom address those crises' root causes and none of which might plausibly set the country on a new path.

"What we have is not a growth strategy; it is an anti-growth strategy"

Nor, despite the crumbling state around him, has he moved away from a state-driven approach to growth. Indeed, he has not really prioritised growth at all. While sometimes seeming to favour a greater role for business and markets in growth and employment, he continues to hobble market expansion and the confidence required for greater investment. Not only does this mean that his actions fail to generate growth, but he also gives market-led reform a bad name when his words are not matched by actions. Indeed, government fails utterly to understand and appreciate how markets and business functions. This is a question of both ideology and of ignorance, and the result is policy failure across a wide spectrum of activity.

While there are many effects of bad leadership on policy and governance. It is also the domain in which the fastest improvements could be made and which will have to be in place if a growth strategy is ever to succeed in South Africa. In this regard, a list of the most important characteristics of the kind of leadership we need would include:

- An ability to recognise and accept the degree to which poor policy and bad governance are at the root of South Africa's failure to grow, and the political will to address those deficiencies;
- An ability to recognise, evaluate and accept the consequences of having to make trade-offs between different goals and between the interests of different groups of people;
- An ability to "sell" the outcome of those choices even to those who disagree with them, especially to those who believe that their interests are better served with other policies;
- The strength and courage to appoint excellent people to at least the key economic ministries, demand performance from a reinvigorated Cabinet and from government as a whole, and the ability to hold people to account; and
- The political will (and capacity) to protect the state from corruption, even when that corruption has its roots among members of the ruling party.

Concluding remarks

Despite rhetoric to the contrary, South Africa does not have a growth strategy. It has leaders who say they want growth, and it has a lot of policy documents that describe how important growth is. However at no stage has the country's political leadership made a decisive choice to prioritise growth or put in place the components of sound policy and good governance essential to an effective growth strategy. Instead, we have a state that is increasingly a brake on growth, a state that is unable to deliver on its most basic functions, one that is presiding over deteriorating infrastructure and rapidly rising levels of indebtedness, and in which the corrupt thrive at the expense of good managers, and where the lives of whistle-blowers are increasingly at risk. This is the polar opposite of a growth strategy: it is a trajectory along which the productive capacities of the economy are diminishing, not expanding and in which almost all signals to investors and the entrepreneurs flash red rather than green.

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