A Country in Crisis

First steps towards a growth strategy

THE GROWTH AGENDA
Priorities for mass employment and inclusion

CDE

About CDE

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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October 2023

Introduction

In June 2023, CDE published an assessment of the reasons why economic growth has slowed to a crawl, concluding that, notwithstanding rhetoric to the contrary, South Africa has adopted what amounts to an anti-growth strategy. South Africa's Anti-Growth Strategy: How poor policy and bad governance are wrecking growth argued that our growth collapse was the consequence of bad policy choices and a calamitous decline in the quality of governance, that the two were intertwined, and that little has been done to address them. All of them have been exacerbated by poor leadership.

To address this we need a strategy. In this, our second report on the growth crisis, CDE considers what needs to be done to get South Africa back on track: how should we think about a growth strategy, what should the priorities be, on which principles should the reform process be based, what are the critical actions to implement, and how could a different kind of leadership get us to a point where such a turnaround starts to, at least, seem possible.

How to think about a growth strategy

There is no shortage of growth plans and strategies in South Africa today. Most are exceptionally ambitious, and some are more coherent than others. There are two dominant approaches. One consists of a long laundry list of actions, reforms and aspirations, with little sense of what to prioritise and how the elements of the list all fit together. The second approach tries to prioritize immediate actions but fails to take into account state collapse or the country's devastating lack of leadership.

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The head of the Commission on Growth and Development (an independent body set up by the World Bank in 2006 and sponsored by a number of governments), Stanford University's Professor Michael Spence, has argued, "Economic and social progress should be pursued effectively – not with a simple list of policies and reforms, but with a strategy and an agenda that involves careful sequencing and pacing of reform and devotes more than passing attention to the distributional consequences."[1]

In South Africa's current situation, the larger concern about over-ambitious, unrealistic growth strategies is the extent to which they fail to galvanise anyone into action. They become an excuse for empty rhetoric and increasingly insidious cynicism. Plans are announced by the President, by business, by government departments, but significant action hardly ever follows, and very soon no one expects anything to actually materialise from any plan.

At no stage has the President or government provided a convincing or comprehensive diagnosis of why South Africa is in crisis. Without such a diagnosis it is impossible to move forward.

Specific challenges are framed as an unexpected crisis, a series of unfortunate, and unpredictable accidents that might have happened to anyone. Responses to each of these crises seem ad hoc, and almost never succeed. There is never any attempt seriously to connect the various 'accidental crises' or to understand why they keep happening. Nor is there any real attention paid to the underlying dynamics that might explain why all these 'accidents' keep happening, and the result is perpetual 'crisis management' that never begins to address the causes of the crisis.

In response to the electricity crisis, for example, government declared a state of disaster, echoing the response to the Covid pandemic, and the President appointed a new minister – in this case by moving him from one priority area, infrastructure, to another.

The truth is that South Africa is in such deep trouble and the future seems so uncertain that it is currently not even possible to develop a credible, galvanising long-term growth plan. At the same time, we urgently need something more than a vaguely defined set of emergency responses.

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What we need is a decisive and workable focus on a narrow set of challenges that, if left unattended, make it most likely that the country will keep falling apart. It is that likelihood that prevents existing businesses, potential investors, individual households and, in all probability, members of government from making a wholehearted commitment to the country's future.

How to stop falling apart

It's doubtful that even a highly competent government staffed by the most skilled, honest and experienced bureaucrats and led by the wisest of politicians could address every element of South Africa's polycrisis simultaneously. Fortunately, that isn't necessary if the country is to reverse the current descent into failure and create the basis for faster growth in the short and medium terms. CDE is proposing three priorities with respect to growth, albeit that each is challenging and the complexities involved should not be underestimated:

- improving security and the rule of law,
- addressing the crises in energy and logistics, and
- stabilising the public finances.

There are, of course, many other things going on in the country, many of them deeply concerning, but these three issues should dominate Cabinet's deliberations, the President's diary, decisions made relating to the budget, and the substance of every communication about government's programme. Everything else should be presumed to be a distraction from the core challenges that government has to address until proved otherwise.

It's important to understand that the argument for focusing on these three issues is not a recipe for rapid and sustained economic growth. Failing to address these challenges, however, more or less guarantees that accelerated and sustained growth will never be achieved. Getting policy and implementation in these three domains right is a necessary but not a sufficient condition for faster growth. This is an approach that, in the first instance, seeks to stabilise the economy to something that is an essential precondition of growth: you can't start to rise until you have stopped falling.

"Unless significant inroads are made into the deterioration of the security situation, there is no prospect of stabilising the economy, much less its expanding"

Improving security and the rule of law

No country can expect to grow if an already-bad security situation is getting worse. This is very much the case in South Africa, where every week brings new revelations about the deepening penetration of organised crime into an increasing number of sectors of the economy. Add to that a long-term challenge of having one of the highest per capita levels of violent crime in the world, the recent experience of large-scale looting of businesses and periodic pogroms against foreigners, to say nothing of the increasingly obvious signs of institutional failure in the police and the justice system, and it is somewhat remarkable that the economy is not performing even more poorly than it has been. This performance is unlikely to continue indefinitely, however, and, unless significant inroads are made into the deterioration of the security situation, there is no prospect of stabilising the economy, much less its expanding.

There can be no illusions about how difficult it will be to loosen the tightening grip of organised crime on the economy, especially given the extent to which violence, extortion and corruption have become intertwined. Karl von Holdt, a senior researcher in sociology at the University of the Witwatersrand, aptly describes the emergence of a 'patronage-violence complex' that leverages links to the state with a readiness to engage in violence and extortion to accumulate riches.[2] Those involved appear to have come to a recognition that, in the absence of law enforcement agencies that are competently led and committed to their core mandates, nothing will stop criminals from expanding the reach of their activities into any and all corners of the economy.

Given the above, the first order of business of a government committed to stabilising the economy would be to identify the (many) causes of dysfunction in the police, and to orient its not inconsiderable resources towards those who threaten the basis of economic order.

One significant impediment to this is that police dysfunction (and the dysfunction that besets the whole justice system) is not entirely accidental; it is the more-or-less intended outcome of years of wilful and deliberate weakening of the rule of law. The deepest damage was done under the Zuma government, but it is difficult to argue that the current administration has done much to change this. Yes, new leaders were appointed to the police and prosecution services, and some of the worst actors were removed from their positions, but there seems to have been no real attempt to improve and energise either agency, and, like it or not, the result has been that officials in both organisations have failed in their basic missions.

An equally critical dimension of the deepening security crises that we face is that government has simply failed to create systems and institutions that have any prospect of protecting the state from members of the political, bureaucratic and economic elites, whose predatory behaviour has so profoundly weakened the state but whose actions in almost every case have been graced with impunity. This is one of the most difficult challenges that any society faces. But the stark reality is that our state is currently almost defenceless against bad actors in the social, political and economic elites. And members of those elites know it.

Thus, the two items that should be prioritised to improve security are:

1. Build state capacity to resist the mafias that are making economic growth increasingly impossible; and
2. Build the state's capacity to protect itself from self-seeking members of the political, bureaucratic and economic elites.

Sadly, these two goals are linked, so neither can be achieved if the other is not.

Addressing the energy and logistics crises

No economy can function, much less grow, without access to reliable and affordable energy, something that South Africa's businesses and households have increasingly had to do without. The opportunity costs of this are enormous: a 2021 estimate by Harvard Growth Lab director, Professor Ricardo Hausmann and his team suggested that inefficiencies in Eskom meant that South Africa's economy had missed out on an aggregate of something like R2 trillion in output between 2011 and 2019.[3] Given the increase in loadshedding since that period, it's easy to imagine that that would account for an additional R1.5 trillion (though the calculation would be confounded by the impact of Covid-19). In their financial stability review in May 2023, the South African Reserve Bank forecast, "GDP growth of merely 0.3 percent in 2023, with load-shedding expected to detract two percentage points from overall growth this year (assuming 280 days of load-shedding at varying stages, but predominantly at stage 4).[4]

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This crisis would be bad enough on its own, but the increasing dysfunction into which Transnet has fallen is further undermining South Africa's growth potential. Indeed, its weakening is clearly reducing South Africa's existing economic capability: the then acting director-general of the National Treasury, Ismael Momoniat, was quoted recently as saying that Transnet transports less freight today than it did in 1994.[5] Apart from the impact of this on the fiscus as taxes and mining royalties fall, the most urgent problem is that an economy that is heavily reliant on the export of ores and minerals for its foreign exchange earnings is going to struggle to pay for the imports it needs (most importantly fuel) to grow. The implications of declining exports for the exchange rate and, therefore, for inflation are potentially very serious.

In CDE's June 2023 *South Africa's Anti-Growth Strategy* report, we argued that there were common reasons for the crushing failures that South Africa is seeing in its energy and logistics systems. Decades of cadre deployment in the state-owned companies (SOCs) that dominate those sectors has resulted in their having leadership that lack the expertise and knowhow to manage their businesses. This problem is linked to and magnified by the fact that both entities are statutory monopolies that have jealously guarded their privileged position at key chokepoints of the economy.

Resolving these crises – no easy task, given their depth – requires two distinct but related activities:

1. Government must recognise and address the technical, managerial and governance deficits in both Transnet and Eskom; and
2. Government must ensure that the statutory monopolies that these entities enjoy are unwound, and that competitive markets are developed for the generation of electricity and the provision of logistic services.

Stabilising public finances

CDE has been calling attention to the dire state of the public finances since our 2019 report, *Running Out of Road: South Africa's public finances and what is to be done?*. And, while National Treasury generally talks a good game about the need for fiscal consolidation, in practice, far too little has been achieved, and debt levels show little sign of stabilising. Given this experience, and given that Treasury has consistently over-estimated economic growth when compiling its budgets, the time has come to change course and to acknowledge that slow economic growth and, therefore, a rise in tax revenues, is not going to save the day; government simply has to reduce spending. If we do not do this, we face the very real possibility of a fiscal crisis – a situation in which government is unable to finance its activities. Indeed, this has begun to happen: in August 2023, the National Treasury signalled its growing alarm at the state of revenue collection by issuing a string of instructions to departments to cut spending immediately.

"Government simply has to reduce spending. If we do not do this, we face the very real possibility of a fiscal crisis "

The need to cut spending is a direct consequence of the weakness of the economy and the carelessness with which the public finances have been handled since the global financial crisis in 2008 brought to an end the period of rapid revenue growth. Continued recklessness in the face of ever-rising debt levels and the ever-falling credibility of government's fiscal commitments only makes this worse. It is essential, therefore, that government both cuts back existing spending and rolls back all the commitments it has been making for higher levels of spending, whether in the form of faster-than-inflation increases in public sector salaries, unrealistic promises relating to a basic income grant (BIG), and the wholly unquantified commitments being made to implement National Health Insurance (NHI). Not only can these commitments not be fulfilled, the mere act of making them undermines any claim to government's being a responsible steward of our public finances. Thus, even if these commitments never happen, the display of recklessness itself makes it harder for Treasury to fund government's activities by casting doubt on its commitment to begin to live within its means.

There are, unfortunately, no easy ways to cut government spending: every programme, no matter how inefficient or how distant its outputs are from the real priorities that government should be following, has beneficiaries who will fight to protect what they have. Not the least of these, of course, are the officials employed to implement the programmes themselves. Government is going to have to gird itself for the fights that are inevitable. The nature and scope of the potential fights are such that they would test even the most committed and hardened of governments.

What is even more critical, however, is that government actually implement the tough decisions it is going to have to take, and that, in doing so, it ensures that those whose interests are affected are not permitted to further undermine the fragile security situation. Not an easy circle to square, to be sure.

Given the above, government's most important tasks in relation to achieving fiscal sustainability are:

1. Identify and implement a plausible strategy for fiscal retrenchment; and
2. Start explaining to officials, public servants and the general public why spending cuts are both inevitable and necessary, and how they are going to be done.

To conclude this section on how we stop falling apart as a society, it is important to note that the impact of tackling the three priority areas would be mutually reinforcing. Fixing the energy and logistics challenges is the fastest way to encourage investment and to spur growth in our export sectors, that, in turn, is the fastest way to generate higher taxes, which, in turn, would mean that pressures on the fiscus would be reduced, and would mean that government would have to cut spending by less than it might otherwise have had to do.

It is hard to think of a more effective way to generate large increases in revenue than getting the coal line to and through Richards Bay working at something close to its capacity as this has the potential to most quickly expand export earnings. Simultaneously, improving the security situation (or even making credible progress in this regard), would improve investor sentiment, as would a credible recognition that something meaningful will be done to address the fact that public finances are currently on a hopelessly unsustainable trajectory. And then do it.

"One of the hallmarks of successful developing countries is that they have ensured that "the state does not take on more than it can handle"

Principles of reform

A critical advantage of a short list of priorities is that it ensures focus and accountability. It also recognises that we do not have the luxury of either ample resources or much time. Politicians and officials will have a clear idea of what is expected of them, and, as importantly, what they should not be doing. As we argued already, this has frequently been a challenge for this administration, where every 'plan' has a list of priorities so long that it provides no guidance to decision-makers as to what is and is not important.

A short list of priorities also ensures that government's messaging about its programme can be clearer, more consistent and more compelling. If the communication is done well, everyone from the President to an ordinary commuter on a crowded taxi will know what government is doing and why. By itself, that kind of focus will make it more likely that the programme will be understood and accepted.

In implementing these priorities government should be guided by a few key principles of how to reform.

Hard-nosed realism about what government can do now

One of the key features of public policy over the past few decades is that many of the goals that have been pursued and many of the systems that have been put in place have been premised on an unrealistic assessment of the capabilities of the South African state. This has frequently led to the adoption of policies that could be successful only if the state were much better endowed with resources and capabilities than it is. As Oxford University Professor, ex-chief economist at the United Kingdom's then-Department for International Development and author of *Gambling on Development*, Stefan Dercon, has made clear, one of the hallmarks of successful developing countries is that they have ensured that "the state does not take on more than it can handle".[6] Development success, he argues, depends less on whether the process is state-led or market-led, and more on whether the balance between the two reflects relative capabilities in a society.

South Africa's approach to policy development, which presupposes a much more capable state than the one that exists in reality, is fundamentally debilitating. And it is worsened by the fact that the state has proved to be exceptionally reluctant to admit that mistakes have been made and, therefore, to learn from these. We would be hard-pressed to name a single programme of any substance that government has closed down after concluding that it was not meeting the goals set for it. Indeed, apart from the Scorpions, which was shuttered because it was arguably *too successful*, it is hard to think of anything that government has started that it has closed after concluding that it was not working. This is a failure of honesty, but it is also a strategic failure because it is essentially impossible for any complex organisation, no matter how competently run, never to make a mistake.

Stop fantasising about a capacitated state emerging in the near future
Too many people in government, parliament, media and business acknowledge that the state has considerable weaknesses but then in the next breath call on the self-same government to undertake actions that even a competent and unified government would find hard to do. Our view is different. Reform proposals need to accept that government is weak and that it is likely to remain so. We are also unconvinced by promises to improve state capacity and the assertion of this as a key priority for reform. Unfortunately, as the latest literature on building state capacity makes clear, around the world, programmes designed and implemented with the specific purpose of enhancing the capacity of bureaucracies have generated disappointing results.

"Neither development nor the building of state capabilities happens in isolation. Instead, they tend always to co-evolve"

The growing consensus amongst experts is that, once government structures are led by people committed to growing the economy, state structures begin incrementally to work out solutions for the challenges emerging in real time. In this way, organisations adjust in appropriate and effective ways to the pressure to deliver results based on the genuine commitment of their leaders to growth and change. By contrast, in the absence of this genuine commitment from organisational leadership, you get the appearance of change, but not its substance. Building state capabilities is a gradual process intimately connected to processes of growth and political reform. As Hausmann puts it, neither development nor the building of state capabilities happens in isolation. Instead, they tend always to co-evolve.[7]

Pro-market policies will work far better than policies that weaken markets
One reason that government's approach to development has generally overestimated the capacity of the state and/or the ability to quickly build up those capabilities is that it has tended to favour state-led solutions to any and every problem it confronts. The state has manifested deep distrust of markets, as well as a lack of comprehension about the extent to which the power of competition can be harnessed to deliver more effectively on government's goals. This is especially true of economic growth, employment creation and poverty reduction. Used wisely, markets can also deliver better services for households and businesses, particularly infrastructure services such as reliable energy and logistics.

It is obviously critical that the performance of Eskom and Transnet improve. It is also obvious that there are steps that could be taken to improve their performance that do not change the structure of the market for the provision of energy or logistics services. It is the latter, however, that needs to be the goal: one of the key reasons that these services are delivered inefficiently and expensively (if at all!) is precisely because Eskom and Transnet are monopolies that sit on critical chokepoints in the economy. In the absence of the discipline exercised by competition, they have been slow, expensive and insensitive to the needs of their customers. It is also why they have failed to take advantage of new technologies. All of which means that the goal and vision has to be the liberalisation of the markets that these two limping behemoths dominate.

Master Plans are the wrong approach for SA's economy
Undoing the monopoly position of Eskom and Transnet in the energy and logistics ecosystems is not the only reform that a liberalising reformer would undertake, though these are among the most important. Another important reform would be ending the approach to economic development that generates the plethora of Master Plans which are the cornerstone of the Department of Trade, Industry and Competition's (DTIC) support

for business. (Support, it must be said, that is often linked to so many onerous conditions that the balance between benefits and costs can be hard to unpick, even for the beneficiaries of DTIC's 'support'.)

These plans suffer from all kinds of weaknesses, but their basic structure is that key role-players in an industry (usually the largest ones) agree with the DTIC on a range of measures that, if implemented, would stabilise the sector and facilitate its growth. These measures might include some form of trade protection, targeted tax breaks, a commitment to local procurement across the supply chain, government investment or support for investment or skills development, and/or a commitment to addressing particular infrastructure deficits.

There are all kinds of problems with this approach to industry-level support, the main ones being that many of the measures are effectively taxes on consumers or, in the case of intermediate goods, downstream users of the goods supplied by the industry. The second is that the measures generally support incumbent firms, and may very well make it harder for new firms to enter the relevant sectors. Finally, for all the energy put into them, the plans themselves often lack credibility: promises are made by government, but then are not implemented.

"The Master Plans are a waste of time and resources. They give the illusion of activity and progress, but can only deliver actual progress if costs are passed on to customers or taxpayers"

Apart from these problems with individual plans, there are two others that relate to the philosophy that underpins the development of the plans in the first place.

The first is a logical problem that exists when one thinks about the difference between having one industry Master Plan and having multiple plans for multiple industries. It may be true that an individual plan might have the potential to be successful in its own terms, but that may be because resources that are generated elsewhere in the economy are injected into the recipient industry to give it a boost. That is possible when there is one plan for one industry. When there are multiple plans for multiple industries, and if all of them require resources generated outside of the industry, then this is no longer possible.

The second macro problem is that industries' challenges are overwhelmingly the result of the weakness of the economy as a whole (which constrains demand), and the absence of reliable energy, logistics and effective crime prevention. Trying to resolve these problems at the level of a particular industry is supremely inefficient and ineffective, and can be done only through the provision of wasteful subsidies. It would be much more efficient– and much better industrial policy – to fix the energy, logistics and crime prevention/prosecution sectors than to try to compensate businesses for the costs of the failures in these sectors.

Overall, then, the Master Plans are a waste of time and resources. They give the illusion of activity and progress, but can only deliver actual progress if costs are passed on to customers or taxpayers. More importantly, by focusing on industry-specific challenges, the Master Plans tend to ignore that the key challenges firms face are not specific to any one industry – they affect the economy as a whole. So, government should give up on Master Plans as a form of industrial policy. Instead, it should say that resolving electricity, crime of all sorts and transport challenges *is* its industrial policy.

Priority actions

In the context of our three priorities, and taking the above principles of reform into account, we recommend the following actions.

What to do about crime and corruption

Crime, threats to security through violence, and corruption are all very different phenomena, though there are links between them. One way in which they are all connected is that their resolution depend on the state's capacity to identify wrongdoers, and then to prosecute and punish them. Rebuilding this capacity is one of the most important tasks that any reforming leader would have to undertake, if only because their capacity to implement reforms will be greatly weakened if bad actors who oppose them can resort to illegal actions without fear of consequence. Indeed, rebuilding this capacity would probably strengthen a reforming president's hand simply because many bad actors in positions of power might be removed from those positions if the law enforcement agencies could get their collective act together.

> **"It seems plausible that those responsible for sabotaging Eskom's plants are arguably guilty of terrorism even if their goal was commercial or an attempt to secure the departure of the previous CEO "**

Given the variety and depth of the challenges that exist in the security sector, and given the tight budget constraints that exist, it's not obvious what a reforming president might prioritise. Clearly, there is a lot of work to do. That said, there are some things that could be done quite quickly, that do not presume significantly greater capacity or resourcing, and which would begin to make a difference.

Historically, the state has been reluctant to charge people with offences that are redolent of the apartheid state's approach to criminalising legitimate political activity. Thus, there has been little or no use of charges of terrorism or sabotage against people involved in even the most extreme actions when trying to secure a change of policy or some other concession from government (including violence, intimidation, destruction of property, and assassination). More aggressive use of these charges should be seriously considered where violence is used to change government policy or decisions. As we read the 2022 amendments of the Protection of Constitutional Democracy against Terrorism and Related Activities Act, it seems plausible that those responsible for sabotaging Eskom's plants are arguably guilty of terrorism even if their goal was commercial or an attempt to secure the departure of the previous CEO. Certainly, this should be tested in court.

Linked to this, law enforcement agencies should also explore the more aggressive use of charges relating to money laundering, which make it possible to charge people who have assisted in the movement of funds that were either the proceeds of crime/corruption or which were used to facilitate illegal activities, including corruption and terrorism. Using the whole anti-money laundering toolkit would also permit the more aggressive use of financial intelligence to identify wrongdoing and the beneficiaries thereof, and could be a way to link powerful people who benefit from corruption and other crimes against the state to the criminality even if they appear to have kept their hands dirty.

In relation to corruption cases, one really has to question whether and to what extent the police and prosecution services are serious about successfully prosecuting wrongdoers because, for all the PR that

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the two agencies put out, there is very little to show for their efforts. Assuming that the failure to secure convictions is not the intended outcome, one has to conclude that the approach taken is insufficiently strategic: prosecutors seem determined to maximise the number of charges they put to every accused person, and, as a result, investigations take forever and are endlessly delayed. Surely it would be more efficient to lay a narrower set of charges – even if these are not the most serious imaginable – if the consequence is that cases can proceed more quickly? This is how the US authorities eventually jailed Al Capone (who was convicted on tax evasion charges), so it is by no means unprecedented or unworkable. There is, as far as we can tell, no reason why prosecutors could not make more strategic decisions about which charges to put to the accused and, critically, about which charges not to lay. They should also be open to plea bargains so that convictions are obtained, even if this is at the price of individuals' serving shorter prison sentences. All of this would help the wheels of justice turn more quickly and begin to make inroads into the backlog of cases clogging up the system.

The key thing about these proposals is that none requires new resources, only the dedication of existing personnel at the most pressing and strategic of the challenges facing the country. They do not, in other words, require increases to the budgets of the relevant departments, and do not contradict the need for fiscal consolidation.

What to do about energy and logistics

One could make a strong case that the quality of management and governance in both Eskom and Transnet has deteriorated over the past 12 months. In Eskom's case, this has been disguised somewhat by the fact that, freed finally of unnecessary restrictions on generating power for their own use, businesses and households have invested enormous sums in embedded generation. This has relieved pressure on Eskom's generating fleet (to everyone's benefit) and demonstrated the manner in which the power of markets offers a route to progress.

To derive the full benefits of markets in energy, a number of actions are needed to create competitive markets in the generation and provision of electricity. This would include the establishment of an independent systems operator buying from lowest cost producers on a continuous basis, proper feed-in tariffs and adjustable tariffs. Corresponding needs in logistics might include liberalisation of services on the freight lines and in the ports so that users would be able to choose between multiple, competing service providers. A plausible case can be made that both Eskom and Transnet should continue to compete for business in these markets, but neither should be allowed to enjoy the level of monopoly power that they have abused to date.

The need to create markets in these sectors is *not* satisfied through public-private partnerships (PPPs) and through sub-contracting some services from businesses (as is being done by Transnet in the Durban port). PPPs and sub-contracting arrangements might improve efficiency in the short term, but they are not a meaningful departure from the basic model of a state-owned monopoly being responsible for service delivery. What is needed, wherever possible, is competition between service providers, each of whom is working their socks off to attract customers.

Indeed, there are dangers associated with sub-contracting (and PPPs) that are not receiving anything like the attention that they deserve. In particular, there is a real risk that in the medium and long terms these kinds of arrangements will serve as platforms for the emergence of new species of crony capitalism where looting is facilitated under the seemingly benign cover of business-government cooperation.

The basic vision for the energy and logistics sectors must be one in which there is much more competition between companies seeking to provide energy or logistic services to customers, all of which are using common infrastructure – ports, say, or power transmission lines and railway tracks – that may be owned by an SOC, but which treat all service providers equally. Thus, a future Transnet may own the ports, but there is no reason why another division of Transnet should also monopolise the provision of port services (as is currently the case, at least in relation to container cargo). Similarly, an SOC may own all the railway tracks, but there is no reason why the same company should have any privileged access to that network when offering services to customers. Creating competition is the only reliable way to ensure that the services are provided at least cost and maximum efficiency, and this should be the immediate goal for ensuring that the performance of these sectors is improved as quickly as possible.

What to do about fiscal sustainability

A precondition of growth is investment. And a precondition of investment is that investors must have some confidence that the economy will not gyrate wildly as a result of crises arising from unsustainable policies. High levels of investment cannot be expected in circumstances in which investors fear that tax rates will have to go up in the future to pay for debts that have been and are being accumulated or that inflation will have to accelerate to reduce the real value of that debt. The failure to address the threat posed to the public finances by unsustainable spending therefore needs to be addressed, and a recognition of the centrality of fiscal sustainability has to be a golden thread that runs through all the spending and taxation choices that government makes.

A sustainable fiscal policy is not just one in which the current numbers make sense; it is also one that is credible over the medium and long term. It is one, in other words, in which political promises and policy commitments are aligned with the resources to which the state has access and is likely to have access to in the future. It is one in which government does not make promises that it cannot afford to keep. Maintaining fiscal credibility, therefore, means that government would have to roll back some of the promises it has already made (BIG, NHI, etc.) until such time as they are affordable, if ever.

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Having said that, it is not enough just to avoid increasing existing spending. Substantial cuts in spending have to be made if we are to get onto a sustainable path.

In making these cuts, it is important to recognise that it is undesirable to reduce spending on infrastructure. We should, however, focus infrastructure spending in areas that have the most impact on growth, especially building infrastructure in the metros, for freight rail and ports, and on electricity generation and transmission. We would get more bang for our buck if localisation rules on infrastructure spending were dropped. (See CDE's September 2023 report on why localisation is so costly, *The Seven Sins of Localisation: Can South Africa afford this costly policy?*.)

"In the context of state weakness and fiscal constraints, expanding, as rapidly as possible, the role of the private sector in the delivery of infrastructure is a top priority"

In the context of state weakness and fiscal constraints, expanding, as rapidly as possible, the role of the private sector in the delivery of infrastructure is a top priority. However, progress is currently held back by an unnecessarily onerous regulatory regime and a lack of clarity about how to finance the public sector's component of these partnerships. (See CDE's February 2022 report, *Accelerating South Africa's Infrastructure Programme: What is holding us back?*). As already noted, the response by ordinary citizens and the private sector as a whole to changes in the regulatory regime governing the generation of electricity shows how rapid a response might be expected to suitable reforms to the PPP regime.

Nevertheless, cuts will have to made. This should be done where public spending offers the lowest returns, whether because it contributes little to growth or to the reduction of poverty and inequality. The truth is that it is not easy to find significant spending that meets this condition, though some examples would include the subsidies provided to favoured sectors and businesses through the DTIC, some of the spending on the executive (particularly the number of departments and ministerial posts), and the financial support provided to SOCs and public entities that have reached a point of institutional failure. Ultimately, the rand value of these programmes is quite small in comparison to the budget as a whole, and, though such cuts have symbolic value, it is unlikely that even their complete elimination would make a significant difference to the sustainability of public spending. That means, unfortunately, that sustainability requires cuts to more significant programmes with more important socioeconomic consequences.

Still, cuts should focus on public sector employment in nonessential areas such as head office and support functions, some of which are bloated by people employed to prepare reports that no one reads or ensure compliance with internal regulations that add no value to the public. It is doubtful, for example, that anyone reads the scores of pages on HR matters that are reported in every departments' annual reports and various other documents, and one wonders whether such reporting serves any purpose at all apart from the activity itself. Some whole departments could be cut, including the Department of Planning, Monitoring and Evaluation, the Department of Public Enterprises (whose functions should move either to line function departments or National Treasury), the Sector Education and Training Authorities (though with the levy retained because if it were cut, too, then there would be no net improvement in the fiscal position), and significant parts of the Department of Employment and Labour, the Department of Sports, Arts and Culture, and the Department of Co-operative Governance and Traditional Affairs. The National Student Financial Aid Scheme might also be converted into a student loan programme, with income-contingent repayment plans administered through the tax system (though this will not yield savings in the short-term).

The right way to lead in a crisis

It is fair to say that we have doubts that any of what we have proposed above will happen. Certainly, it won't unless there are very significant changes in the way South Africa is led.

Replacing ineffective leaders and officials with more effective ones is, in fact, the first principle of reform. People with poor records of leadership are unlikely to be able to initiate reform both because they are bad leaders and because their poor reputations undercut their credibility. More generally, it seems indisputable that policy is never likely to be implemented effectively in the hands of bad leaders, so building a team of good and credible leaders (particularly in the most critical institutions), is an important prerequisite of success. It seems equally indisputable that one cannot hope to find all of the best leaders from a circle of friends and comrades of the President and members of the Cabinet – a much wider net locally and internationally will have to be cast.

Across government, leadership of institutions – especially the most critical institutions – needs to be fit for purpose. Leaders that lack experience and knowhow on how to manage large systems or of the particular institutions they head up will not make consistently good decisions, whether routine or in response to unexpected events. They may be good people with all the integrity in the world, but, in the absence of the wisdom earned from relevant experience, they are less likely to perceive or understand the set of choices they face, as well as the pros and cons of each option. Inevitably, decision-making in these circumstances is less than optimal and may often be genuinely bad.

"Replacing ineffective leaders and officials with more effective ones is, in fact, the first principle of reform"

This assumes that the people charged with leading these organisations have integrity and that they actually want to do the right thing. Unfortunately, this is often not the case: all too often, the leaders installed by government in key institutions operate as if those institutions existed to serve either their interests or the interests of the ruling party, and that serving the public interest was important only to the extent that it legitimates the institution's repurposing to serve narrower interests. These cases – which seem to be far more common than cases in which deployed cadres seek sincerely to serve the public interest – must eventually result in operational and commercial disaster.

Apart from the negative effects on institutional performance of having the wrong people at their head, leadership failures of this kind also erode the political capital needed to effect change. The changes that are needed will have to take on vested interests, and it is inevitable that those interests will seek to weaken and undermine the reform programme, in some cases aggressively and even violently. This is already evident in the energy sector, where coal mining and transportation interests have mounted strong resistance to change, deploying strategies and tactics, many illegal, in order to achieve this. This is to be expected wherever reform is initiated, and it is critically important that the leaders who drive that change have the political capital needed to see it implemented. There is simply no reason to expect that the individuals that have led institutions in which there has been a long period of operational and commercial failure will have the political capital needed to take on vested interests as their credibility will have been eroded by the failure of the institutions they head.

There is another reason why deficits in credibility and legitimacy undermine leaders' capacity to drive reform: they will struggle to attract support from constituencies who might benefit from the changes they are leading. Business, for example, is less likely to throw its weight behind a leader who has serially disappointed than one who is deemed to be effective. Ineffectiveness, in other words, is self-reinforcing because the less effective a leader is, the less support they will receive when they try to lead. They will also struggle to build a good team since excellent professionals will often not want to work for weak leaders.

The right kind of leadership is therefore required to initiate and drive the reform process forward in a context of significant opposition and deep public scepticism. These leaders need more than political power and will to succeed. As Sir Paul Collier, Oxford University-based development economist, put it in conversation with CDE's executive director Ann Bernstein:

> Leaders are inclined to see themselves as commanders-in-chief, pulling levers of public policy and ordering people to do things. That does not work very well. Most leaders, thankfully, lack anything like enough coercive power to achieve very much on their own. An effective leader therefore needs the vital asset of the willing compliance of a majority of citizens. And that has to be earned. Effective leaders should adopt the role of communicator-in-chief. They must have a compelling vision to sell and need to build up sufficient trust and credibility to get to a situation where ordinary people are ready to pay attention and to buy into the new vision.[8]

This is not to argue that pulling the levers of power is not a central component of leadership, but rather that tough actions require support and are more likely to succeed when leaders are able to articulate a credible vision of how to get to a better future and why the sacrifices and tough measures required are worth it. In this context, applying austerity and cutting out inefficiencies must apply to the leadership group as well. The impact of cutting numerous perks to Cabinet ministers and other executives throughout the government, national and provincial, will be small compared to our massive debt. However, its impact on leaders' credibility and willingness to 'take some of the pain' will have real symbolic value.

"Effective selling of the vision and the benefits if a country sticks with an effective reform path has to be coupled with the coercive apparatus of the state to deal with highly placed, well-connected predatory elites"

Of course, effective selling of the vision and the benefits if a country sticks with an effective reform path has to be coupled with the coercive apparatus of the state to deal with highly placed, well-connected predatory elites.

And, while leaders need to be determined and consistent, they also must be ready to experiment, to communicate the goals of these experiments, to explain failures and to build on unexpected successes. They may have to confront the likely reality that the immediate consequences of some of the reforms they push through lead temporarily to a worse and more unstable situation than pertained previously. That will frequently present reforming leaders with their toughest challenge, which is why there needs to be a process of ' learning by doing' where ineffective leaders or executives or programmes are removed, proper evaluation is done and the critical lessons built upon for the future. Once the reforms start to succeed, it becomes easier to convince people that the new strategy will work.

Leadership and the Commission on Growth and Development

After publishing The Growth Report in 2008, which set out recommendations on how to achieve a sustained growth rate of 7 percent, it became apparent to the Michael Spence-led members of the Commission on Growth and Development that "politics, leadership, and political economy were centrally important ingredients in the [growth] story."

To address what appeared to them to be a gap in their work, they published a volume of essays on leadership and growth. The editors (Spence and Stanford University Professor David Brady) took the position that leadership matters, but it is difficult to measure its relative importance. "At best," they argue, "one can venture that effective leadership involves seizing opportunities created by political-economy dynamics to institute change in strategy, structure, and direction. ... There needs to be a catalyst that turns change, adversity, and opportunity into a new direction."[9] Leadership then consists of whether and how individuals in power take advantage of such opportunities.

The book consists of case studies of leaders in countries across Asia, Africa and Latin America. Even though Brazil is not the most successful example of high, sustained growth, and the country currently faces considerable challenges, the most interesting chapter is by former President Fernando Henrique Cardoso, whose chapter reflects honestly and with insight on the role he and his righthand man, Eduardo Graeff, played in getting Brazil out of an economic quagmire marked by hyperinflation and economic stagnation.

During the 1980s and early 1990s, Brazil cycled through numerous presidents, development policies, and finance ministers, without making any progress. This only changed when Cardoso, during his tenure as minister of finance, introduced the 'Real Plan', which combined fiscal restraint, tight monetary policy and the encouragement of foreign investment. The plan's determined implementation eventually resulted in inflation plunging from 5 200 percent to nearly zero. An appreciative Brazilian electorate voted Cardoso into the presidency in 1995, where he remained after another election win, until 2003.

Throughout his presidency, Cardoso sustained his focus on controlling inflation and integrating Brazil into the world economy. He worked hard to keep Congress and society on side and undertook to implement reforms as transparently as possible. He built alliances across political parties and interest groups and focussed on strengthening political stability. He succeeded in raising and stabilising the average growth rate and he arguably laid the foundation for further growth and prosperity under his successor, Luiz Inácio Lula da Silva.

Cardoso and Graeff explain their success in the following way:

> Tired of inflation and its negative effects, Brazilian society saw the Real Plan as a solution and backed it against the opinion of many people and many vested interests ... Without leaders who can present a perspective accepted as valid by the majority, significant transformations do not happen in a democracy. That acceptance is not blindly given. There has to be a democratic pedagogy, persuasion, an effort to 'win together', otherwise the traditional order prevails over the forces of modernisation and change.[10]

CDE, 2023

Concluding remarks

The central theme of this report bears repeating: the essential precondition of growth in South Africa today is that you can't start to rise until you have stopped falling. And, because we are falling, we currently face a dismal set of choices: there is no real prospect of faster growth until the accelerating processes of collapse are halted, and achieving even this may demand more than the current government is capable of delivering.

This report has proposed a narrow set of priorities, albeit that none is easy: we must stabilise our public finances by reducing expenditure; we must solve the crises in energy and logistics while putting in place the foundations of market-driven solutions that will replace the existing monopolies; and we must ensure that the justice system identifies and prosecutes the intertwined mafias and corrupt officials who have strengthened their hold on a growing number of sectors and activities.

For any of that to become reality requires a new kind of leadership that places the interests of the country at the heart of its agenda, led by a President who is backed by a committed, credible and unified team that understands how to transform and bed-down change in large systems. As 'communicator-in-chief', the President must build a credible and hopeful narrative, and, as quickly as possible, a new consensus of where the country is going, how to change South Africa in the interests of all (not a well-connected elite), and the progress that is needed to do so.

"The essential precondition of growth in South Africa today is that you can't start to rise until you have stopped falling "

The leadership team needs to understand the power of markets to drive prosperity and inclusion, and the essential role of the state in providing the foundations for market-driven solutions. It needs to be cognisant of the desperate poverty of nearly 60 percent of the population, and provide hope to all those excluded, while at the same time opening up the economy for more new firms. The team will need courage and legitimacy to drive change. It will need to build alliances with a broad range of constituencies and ensure the incremental inclusion of more and more South Africans, coupled with real improvement of public services.

There is no way to model the effect that achieving significant success in pursuit of these goals would have on growth, and it is even less possible to model what the effect would be of merely being seen to be pursuing them. What we do know is that failing to do this essentially guarantees that South Africa's growth rate will continue to fall and will eventually turn negative, with dire consequences for poverty, inequality, and stability .

Our society is too fragile and has too little resilience after the multiple policy and governance failures of the past 15 years. Unless and until we reverse the rot, no prospect of future prosperity can be honestly proffered. We need to recognise this and get on with the job, however challenging that may be.

Endnotes

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Published in October 2023 by The Centre for Development and Enterprise
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