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The weakening of the detrimental state

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South Africa's Third Age: What lies ahead

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The weakening of the detrimental state: how the receding state opens up space for better solutions to emerge

Public opinion on South Africa is dismal, both within the country and outside. During my engagements with the foreign policy and Africa-focused think tank community here in Washington I have heard many expressions of concern – even alarm – about the path South Africa finds itself on.

Inside the country, polling results indicate that South Africans are worried about their future. A survey by the Brenthurst Foundation in 2022 found that 80% of respondents believed the country was going in the wrong direction. Only 13% believed it was going in the right direction. This matches the results from other surveys. An IRR poll in 2022 asked participants whether their lives had improved or worsened during the past five years. Three quarters of respondents said that their lives had not improved.

A review of newspaper headlines over the past year reflects that. The word "crisis" is now commonly invoked in writing on South Africa. Since the beginning of the year the expression "failed state" has been added to the list, with a broad range of commentators both local and global red-flagging South Africa's current trajectory.

Understanding how we got here, and where we might be going next, requires looking back at South Africa's history. The period since the 1994 transition can be divided into two ages. The first lasted from about 1994 to 2007. The second age started around 2008 and we are now at the tail end of it. The two ages reveal themselves clearly in South Africa's development indicators. I will describe for you some of those development indicators and will then speak about what lies ahead for South Africa as it moves out of the second age and into its third age.

South Africa's first age, from 1994 to 2007, was marked by considerable progress across a range of indicators. GDP grew at an average rate of 3.6%. The number of people with jobs increased from 8 million to 14 million, and the average GDP per capita increased by almost 40%, from R55 000 per year to R76 000 per year in real terms, after adjusting for inflation.

By contrast, for the period 2008 to 2022 the average GDP growth rate was a lackluster 1.2%. The number of people with jobs increased by barely a million over a period of 14 years, while the population grew by 10 million over the same period. GDP per capita declined by R1 600, as people became poorer in real terms. The unemployment rate has crept up over the years and now sits at an astonishing 32.9% (up from 22.6% in 2008), or 42.4% (29.5%) on the expanded definition that includes discouraged job seekers. Even these bleak employment numbers are generously assessed, as they include both formal and informal employment.

Business indicators show a similarly stark divide. The RMB/BER business confidence index registered above the confidence-indicating 50 mark in seven out of 14 years of the first age, on a rising trend, but has been below 50 – showing lacking confidence – every single year since 2008. Investment trends are downwards, with gross fixed capital formation as share of GDP climbing during the first age, reaching a level of 21.6% in 2008, before declining in the second age, dropping to as low as 13.1% in 2022. This number should be around 24% for an emerging market like South Africa. The government's 2012 National Development Plan specified a target of 30%.

The lack of investment by the private and the public sector has started affecting the infrastructure that forms the backbone of the country's economic activity. While dramatic deterioration is being recorded in road, rail, ports and water infrastructure, the sector that has attracted the greatest attention is electricity generation. While the total amount of electricity produced rose from 170TWh in 1995 to 253TWh in 2007 during the first age – an increase of 49% - it declined from there to barely 209TWh in 2002 – a drop of almost 18%.

As a result, Eskom, the state-owned power company, has had to ration the supply of electricity since 2007. This takes the form of rolling blackouts referred to as "load-shedding", where parts of the country are forcibly disconnected from the grid on a rolling roster to curtail demand to match the available supply. If Eskom didn't do this, it would place the stability of the national grid at risk. The power company has become very good at managing loadshedding, and the grid has remained stable over the past 16 years since load-shedding started. An app (privately produced) lets you look up when your power is going to be off and arrange your life accordingly.

Although South Africans have adapted to live with load-shedding, it has imposed a substantial burden on efficiency and productivity. A power-constrained economy cannot grow, and the lack of electricity is a large contributor to South Africa's lack of growth over the past decade-and-a-half. Load-shedding has worsened over the last four years, with the total hours affected by load-shedding steadily rising to 3 869 hours (out of 8 760 in the year) by June 2023.

So where to next for South Africa? The country is heading into elections in 2024, but little policy change is expected to result. The African National Congress (ANC) is likely to continue governing, either by itself – as it has done since 1994 – if it wins outright, or else in coalition with some smaller parties if its support drops below 50%. But small parties are unlikely to be able to shift the ANC onto a new policy track, and nor has the ruling party itself indicated any desire to do so, despite the dismal results it has produced.

Instead of political currents, a different trend will shape South Africa's outcomes over the medium term. This is the receding power of the state – its loss of authority and credibility, its inability to translate plans into action, and the growing disconnect between the ruling elites and those they govern. This process will play out over a period of years but is already well underway.

A useful analytical framework for thinking about this assesses the role of the state along two axes. The first axis is whether the state plays an enabling role or one that is obstructive. The second is whether the state is expanding or receding. Combining the two axes results in four quadrants.

First, consider a state that is expanding and enabling. You'd see the size of the state by revenue as share of GDP increasing over time. You'd see a fiscal multiplier greater than 1, meaning that for each tax dollar the state takes out of the economy and spends elsewhere, it generates an increase of more than one dollar in national income.

States of this nature tend to invest in large-scale infrastructure programmes and the expansion of public services. The government is interventionist and tries to pick winners in terms of its industrial development policies. Typical examples that come to mind are South Korea or Japan. They are often marked by rapid economic growth, high rates of job creation and improving development indicators.

A label often applied to such states is **'developmental'** – and indeed this was the aspiration of the South African state, which was to some extent fulfilled during the first age described above.

Second, a state might be expanding but obstructive. The state's share of revenue as share of GDP would be large, but its fiscal multiplier is smaller than one. It launches large-scale projects, such as power station builds, but they get bogged down in corruption, cost overruns and price inflation. Over time the state's capabilities decline, and a culture of no accountability and tolerance for underperformance takes hold.

Public services deteriorate significantly as a result. Economic growth slows down, turning into stagnation or even contraction, as unemployment creeps up. The state increasingly becomes inimical to the country's development, as it gets in the way of economic growth and improvements in people's living conditions. We term this type of a state a **'detrimental state'**. It is a label that fits South Africa during its second age.

Third, a state could be receding in terms of its capabilities, even while its aspirations remain ambitious. This is the third age that South Africa is now transitioning into, although not many have realised it yet. We call this kind of a state the **'emasculated state'**. Although the state might be trying to expand its influence by passing laws and regulations, and by announcing grandiose schemes such as smart cities and bullet trains, its declining capabilities mean it is unable to implement its plans. A famous South African example involves an electronic highway tolling plan in Johannesburg which was installed at high cost, but failed because of dismal compliance – over 90% of drivers simply refused to pay. It is just one example of many where citizens are increasingly ignoring the government.

As the state becomes less and less capable, it is being increasingly bypassed by private actors. This process has been underway for a considerable time already. Those who can afford it rely on private healthcare and schooling, of a quality far higher than that provided by the state. In the absence of reliable electricity from the state-owned utility, those who can afford it install solar power on their rooftops.

The installed capacity has doubled over the past year, to over 4 000 MW nominal. Calls to the police often go unanswered, with the emergency number 10111 sitting at a 40% staffing level and dropping millions of calls. In response, South Africans make use of private security companies that are highly trained and effective – and whose staff now outnumber the police force by a 4:1 ratio. When a wave of riots and looting rocked the KwaZulu-Natal province in 2021, citizens protected their property while the police and army were conspicuous by their absence.

Such replacements of state services by private entities are taking place all over South Africa. In urban areas, residents' associations are fixing potholes, while in rural areas, farmers do the same. Civil society organisations like Solidarity are building technical schools and universities. Trash recyclers control traffic intersections when the lights are out. Large corporations provide security along freight rail corridors, while mining companies build clinics and provide housing and water near mines. Providers of mediation and arbitration services help resolve disputes without the involvement of the courts. Farmers help repair the water infrastructure where state neglect has left it derelict.

Often the state still gets in the way of these solutions. Government agencies prevent private medical insurance companies from offering cheap plans for low-income groups, and limit the number of nurses that private hospital groups are allowed to train. City entities circulate memos reminding citizens that it is illegal for anyone but themselves to repair potholes.

The state power company prevents a private electricity company from reducing the intensity of rolling blackouts in the town of Frankfort. But these are rear-guard actions by a weakening state, which is increasingly making itself irrelevant.

This is where South Africa's greatest opportunity for the future is to be found: in its innovative and resilient private sector and civil society, which are solving problems in the growing absence of the state, and doing so successfully. In years to come, South Africa may well become a case study of how private initiative succeeds where states fail. And in future, South Africa could end up with an enabling, compact state – or a **'lean state'** which cooperates with non-state actors instead of trying to stifle their efforts – with valuable lessons even for the developed world.

This is a more nuanced and optimistic view on South Africa than the 'failing state' narrative which is currently taking hold would suggest.

As I continue my meetings in Washington to shore up support and build relationships with the many people and organisations sympathetic to South Africa, I encourage you to look closely at this complicated but fascinating country – and to observe both that which is seen and that which is not seen.