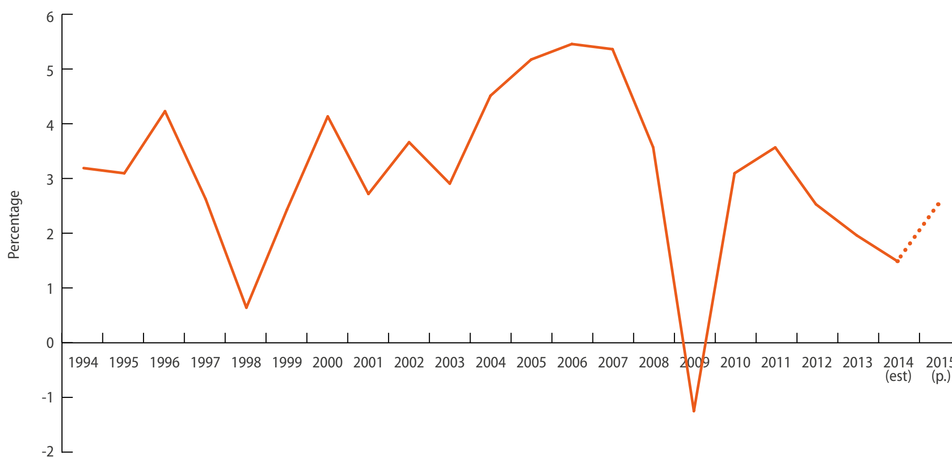
Chapter ONE

Economic Governance

The Economy at a Glance

In the 2014 Medium Term Budget Statement, the growth estimate for the year was revised downwards from 2.7 per cent to 1.4 per cent due to global and domestic factors. The ongoing energy crisis, coupled with skills shortages and other constraints, continues to impact negatively on South Africa's growth trends. The National Treasury has projected growth levels to increase to 2.5 per cent in 2015. Creating a more inclusive economy will no doubt rely on increased and sustained growth levels of at least 5 per cent as set out in the National Development Plan. The government's consolidated budget deficit for the year is estimated to widen to 4.1 per cent from the 4 per cent projections of February 2014. The National Treasury has warned that public debt is fast approaching 'the limits of sustainability', and this could see the government reprioritising spending to service debt, away from planned infrastructure programmes. It is also likely to raise taxes. The continued bailing out of parastatals like Eskom is likely to have a negative impact on deficit levels. The Financial and Fiscal Commission has cautioned that across-the-board cuts to control debt may threaten good programmes. Noticeably, the public sector wage as a percentage of GDP has been growing. It is worrisome that the negative budget deficit trend correlates with a growing public sector wage bill. The ratio of gross fixed capital formation to GDP (a measure of investment spending) is still below the peaks of 2007 and 2008. According to the National Planning Commission, the acceptable standard for infrastructure investment is 25 per cent of GDP.

South African year-on-year GDP growth, 1994–2015

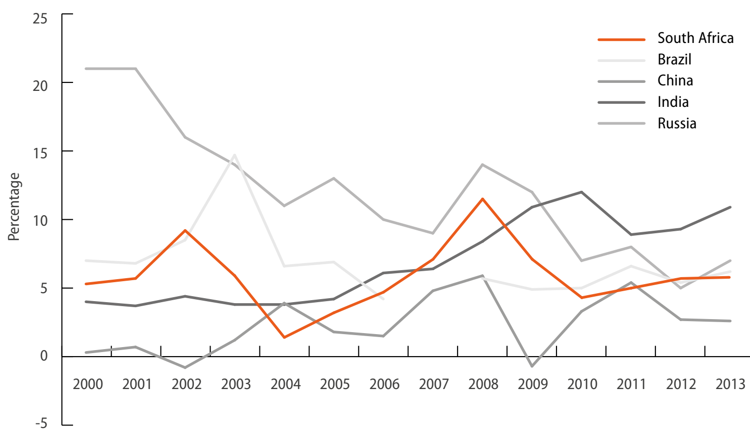


< *Source*: National Treasury, Medium Term Budget Statement, October 2013; World Bank, World Development Indicators 2012; National Treasury, Medium Term Budget Policy Statement 2014
Data notes: The MTBPS 2014 was used to update the figures from 2013 onwards (the previous sources were used for figures before this year); however, the 2014 figure is an estimate, and that of the 2015 is forecasted.

1.4%

South Africa's projected GDP growth for 2014

CPI inflation rate (BRICS), 2002–2013

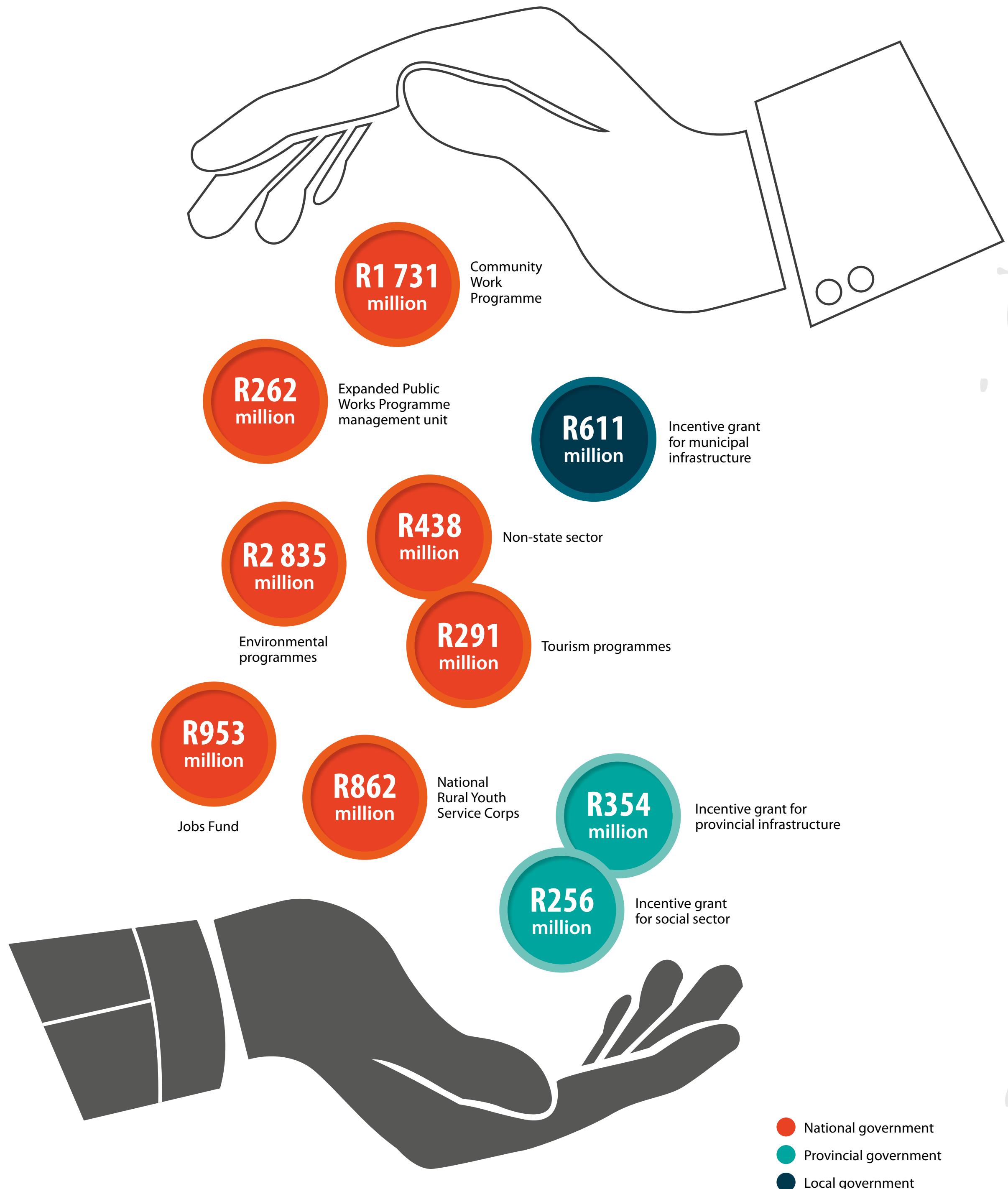


Source: World Bank Website, 2014
Data notes: CPI inflation rate (emerging economies) data were obtained using the World Bank data.
2005–2013 data for South Africa were updated with data from the National Treasury, 2014 Medium Term Budget Statement

Budget expenditure 2014/2015	Expenditure in Rbn	Percentage of expenditure
Basic education	188.0	16.6%
Health	145.5	12.8%
Defence, public order and safety	163.9	14.5%
Post-school education and training	53.3	4.7%
Economic affairs	195.0	17.2%
Local development and social infrastructure	176.4	15.6%
General public services	67.1	5.9%
Social protection	143.4	12.7%
Allocated by function (Total)	1 132.6	100.0%

Source: National Treasury, Budget Review 2014/2015

Funding for employment programmes, 2013/2014



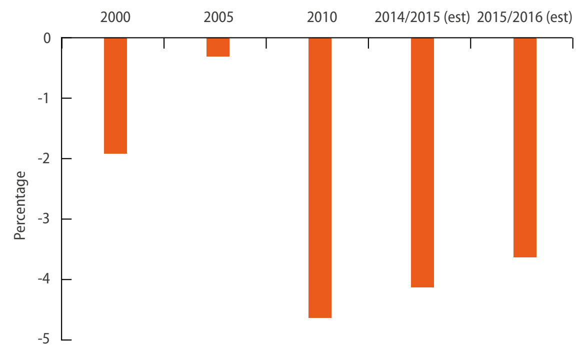
Source: National Treasury, Medium Term Budget Policy Statement 2014

Ranking of the 20 largest emerging economies on selected components of the Global Competitiveness Index (GCI)

		Public institutions		Market competition		Labour market efficiency	
GCI 2014–2015 Rank	Country	2014–2015	Since 2010*	2014–2015	Since 2010*	2014–2015	Since 2010*
20	Malaysia	23	+21	9	+20	19	+16
24	Saudi Arabia	26	-5	33	-24	64	+2
28	China	43	+3	86	-22	37	+1
32	Thailand	93	-23	47	+6	66	-42
34	Indonesia	53	+4	57	+3	110	-26
43	Polanda	56	-2	46	+3	110	-26
45	Turkey	67	+23	44	+18	131	-4
52	Philippines	75	+49	109	+12	91	+20
53	Russia Federation	102	+16	119	+10	45	+12
56	South Africa	45	+8	35	+8	113	-16
57	Brazil	104	-8	135	-3	109	-13
61	Mexico	109	+1	110	+6	121	-1
66	Colombia	123	-6	127	+3	84	-15
70	India	69	-10	111	-23	112	-20
83	Iran, Islamic Rep.	98	-24	121	-18	142	-7
104	Argentina	138	-5	143	-5	143	-15
118	Egypt	101	-40	126	-42	140	-7
127	Nigeria	132	-10	78	+11	40	+34
129	Pakistan	125	-11	108	-10	132	-1
131	Venezuela	144	-5	144	-5	144	-6

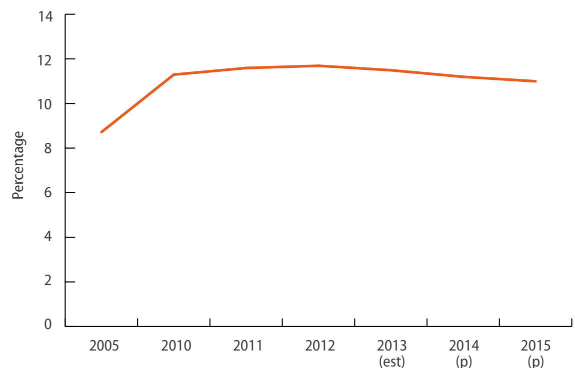
Source: World Economic Forum, The Global Competitiveness Report 2014/2015
Data note: Countries are listed according to their overall GCI rank. Ranks are out of 144 countries

Budget balance as percentage of GDP, 2002–2015



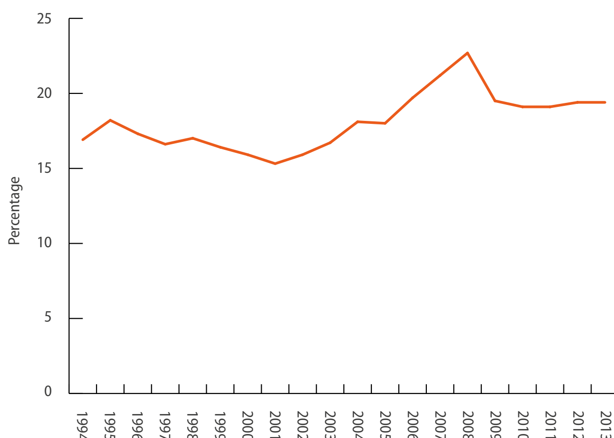
Source: National Treasury, MTBPS 2011; MTBS 2012; MTBS 2013; MTBS 2014
Data notes: The data were updated from 2010/11 onwards using the relevant Medium Term Budget Statement for the outcome of each each. This is because each policy statement has estimates and forecasts for the following years, but in order to record the most accurate figures for each year, the most up-to-date policy statement was used for each year. The 2014 MTBPS was used for medium estimates for the years 2014/15, 2015/16.

Public sector wages and salaries as a percentage of GDP, 2005–2015



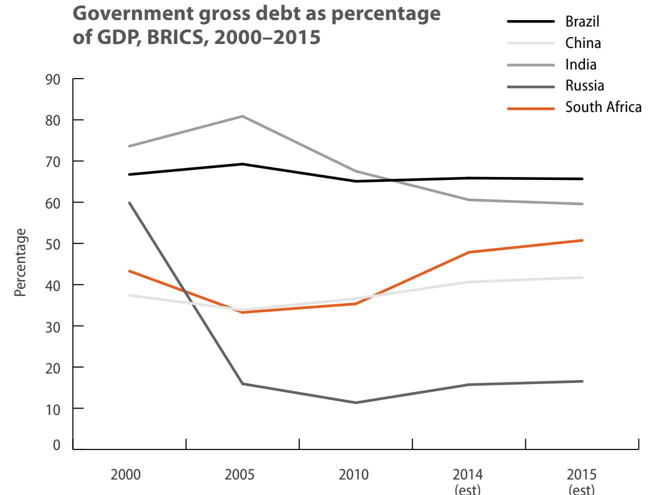
Source: African Economic Outlook, South Africa 2014
Data note: 2013 estimates (e) and 2014–2015 projections (p)

Gross capital formation as percentage of GDP, 1994–2013



Source: World Bank

Government gross debt as percentage of GDP, BRICS, 2000–2015



Source: International Monetary Fund (IMF), World Economic Outlook October 2014
Data notes: 2014–2015 are IMF estimated; shaded cells indicate IMF staff estimates

Prospects for radical economic transformation

Cees Bruggemans

The great lament(s)

Why has the South African economy not produced radical outcomes, 20 years after being ordained to do so by the ANC government? Why?

'Radical' is understood here to mean an end to the iniquities of the past, a substantial eradication of poverty, a lifting of education standards, a dramatic increase in productive and decent work at elevated income levels, a major expansion and change in appearance of urban centres for the better, an overall improvement in living standards, a productive rather than wasteful state machinery, a lessening of the 'us-and-them' mind-set, and an improvement in general well-being.

There has been piecemeal change. Some isolated elites have benefited greatly but, although the country's poverty rate has dropped, few have been catapulted into circumstances of material security. After all, with an increasingly struggling economy, an improvement in access to services and an expansion of social welfare assistance to the poor is no match for secure employment. As the gap between the underperforming economy and the material demands of citizens continues to grow, the more radical the nature of the change required becomes. When these demands outstrip the economy's capacity to respond, inevitable detours will be invited through populism and a genuine backsliding, even collapse, of the political centre.

What has brought us to this point? The answer must be similar to the answer offered to the same question 30 years ago, 40 years ago, 50 years ago. If you insist on doing the inadvisable, despite advice to the contrary, you will reap a whirlwind. It can be said, in all earnestness, that the modern South African economy has never been given a fair chance to show what it is truly capable of, in both the productive and the distributive sense. Something, somehow, has always got in the way. First, it was *uitlanders* (foreigners) in the decades leading up to 1900. Then came *swartgevaar* (black-danger) until 1990. Increasingly, it was the godless *rooigevaar* (red-danger) in the clothes of *swartgevaar* (the decades prior to 1990). Since 1994, it has been 'never again' monopolistic *witgevaar* (white-danger). While such fears are real enough to those who have held political sway at a given time, an obsession with the potential scale of their impact, at the expense of other economic considerations, has distorted the prism through which the economy has been viewed and the parameters within which it has had to perform.

The ANC government had the opportunity to 'right-size' the economy in 1994. Instead, it went down a variety of avenues, none of which brought forth the results that were claimed to be within reach. Right-sizing the economy did not happen, because it could not happen, not with the way the ANC was running the country in terms of its policy choices. Right-sizing did not happen, because the ANC did not allow it to happen, preferring different policy prescriptions, which did not lead to right-sizing. This led, instead, to more distortions and underperformance, not less. Instead, the economy was sent onto the field handicapped to the gills, and decried for playing a weak game (and, indeed, of late, losing the plot). The economy needs to be less burdened by the specific kind of policies that were inflicted on it. What it will be getting, however, if the tone of government policy discourse is anything to go by, is further (and more radical) shackling. The outcomes, I predict, will indeed be radical, but will turn out to be destructive; and, going by the last 20 years, we are halfway there already.

As the gap between the underperforming economy and the material demands of citizens continues to grow, the more radical the nature of the change required becomes.

Can the ship still be turned around? As was the case 100, 50 and 20 years ago, there is still little fundamentally wrong with the economy that cannot be fixed. It has much going in its favour, even when the world turns temporarily less friendly or accommodating, as it is bound to do from time to time. Thus far, the damage to our collectivity, though not minor, has not destroyed critical abilities and means. So, yes, the ship can still be turned around. It can even still be made to perform and, indeed, fundamentally transform outcomes by simply doing the right things right. To succeed, however, it cannot be captained by just anybody, or governed by any set of rules. It is also critical to assess the initial assumptions from which we depart on the journey towards an economy with better developmental outcomes.

A view commonly expressed in government circles, which makes me pause and wonder about the assumptions held by those in the corridors of power, is that the development gap encountered in 1994 required a radical overhaul of the distributive functioning of the South African economy.

However, should this be our first priority? Perhaps it needs an overhaul of its productive functioning, allowing it to function as it should. That, in its own right, would see dramatic changes in distributive functioning. If these were still not sufficient, yet more could be contemplated regarding distributive outcomes, always along the way asking what it would mean for productive functioning, which is the ox that needs to pull us up the mountain in the first instance. Of course, there are those who believe that distributing first is the winning formula, but if this is so why are we sliding down the international economic rankings at increasing speed?

As things stand, our dilemma can be summarised as follows. In 1994, South Africa needed to improve its economic performance radically in order to substantially change its developmental performance. Yet, 20 years later, the country is apparently still in need of radical economic transformation, for the wanted outcomes have not materialised.

In recent years, the government's stock economic response has been the National Development Plan (NDP), which claims to offer radically changed outcomes without radical departure from mainstream policy thinking, even as:

- non-radical NDP implementation will be challenging, given the fragmentation and polarisation of the South African policy community;
- stagnant growth is a reality (headwinds everywhere you look); and
- the NDP magically presumes the ability to achieve its ambitious growth assumptions.

Something does not seem to add up here. Can the state really achieve anything with such an unpromising proposition? This is the focus of this article. It sets out to:

- realistically assess the environment and its challenging internal and external conditions;
- interrogate the conduciveness of the environment in the production of outcomes radically different from the present (questioning whether the state is creating unrealistic expectations); and
- ask, as an afterthought, what will happen if the outcomes of the radical transformation proposed for the next 20 years are not radical enough.

In essence, one must not allow oneself to be bamboozled into believing that the right policy strategies have been followed to date. The economy has been handicapped instead of set free, and has struggled ever since getting out of the 1994 starting blocks. If there is denial about the errors to date, the mistakes going forward can only end up being bigger.

So what were these mistakes and what correctives will undo the handicapping? After the lost decade of the 1980s, the South African economy was partially set free, only to be put back into a restrictive harness. Now we are already half-way through another lost decade. What could set us free this time, giving us superior outcomes radically different from our contorted past?

The development gap in 1994

When inclusive democracy finally arrived in South Africa in 1994, it was with the flick of the pen. Thereafter, all citizens aged 18 or older could vote in regular national and local elections if registered. What could not be undone with the flick of a pen was the 'development gap' of centuries, the deeply different social and economic legacies bequeathed by past generations, and enshrined in our social and economic structures, marking our daily reality.

Political inequality had prevented free and fair social and economic competition. Instead, the playing field was rigged, in terms of elaborate rules of exclusion and inclusion, dependent mainly on race, with some having rights and access that others did not have. These arbitrary rules decided where and how one lived, with whom one could or could not associate, what one might or might not believe or think or express, where and what education or health care could be had, shopping done or sport played (if at all), how one travelled, what type of work might engage in and where, and so on into the minutiae of daily life.

The result was like a Rube Goldberg contraption, a convoluted societal structure far removed from one based on freedom of association, movement and choice. If this resulted in political and social distortion (by putting people at arm's length in separate boxes), it similarly prevented the economy from naturally seeking the optimal mobilisation and allocation of resources, and functioning as an integrated whole rather than as many unequal, separate entities. This affected labour, in particular, as well as its geographical spread, the structure of cities, access to infrastructure, the allocation and endowment of capital, and the distribution of income and wealth.

Of course, every society and economy, to varying degrees, accepts inequality of outcomes, this being a reflection of ability, talent, skill and luck in social and economic interaction. Modern societies try to modify such outcome inequalities through taxation, subsidisation and regulation, short of creating debilitating disincentives to work, to save and to take risks.

Thus, modern societies reflect uneasy trade-offs between the strong, talented and lucky and those less so, in a broad societal pact underwritten by democracy, in which it is understood that there can be upward and downward mobility, without laying down precise markers, leaving it mostly to the market place of life and day-to-day policy-making to shave away at the greater excesses, which could ultimately undermine the implied, unwritten democratic pact.

What confronted South Africa in 1994, in a nutshell, was a structural reality way out of line with what a fully inclusive democratic social pact would accept, in terms of both structural legacies of the past and what would be sustainable into the future under the new political dispensation.

Taking the whole 1994–2014 period into consideration, the most positive new-era interventions were, firstly, setting us all free politically and, secondly, repositioning fiscal policy so as to get the broad fiscal burdens and supports right. This was the full 'Rainbow Nation' model. However, a large part of the second benefit (fiscal reprioritisation) was negated by the often blind emphasis on affirmative action, weakening capacity and governance, the proliferation of corruption and, linked to this, failure to provide value-for-money service delivery. The biggest failure here, however, was weak political

ONE

leadership, which fanned unrealistic expectations without ensuring that follow-through would be there. Aspirations became expectations and were turned into entitlements, without reference to the ability to supply on time and to specification. In the process, a monster was born, demanding at every turn, instead of asking what it could do to make the country perform better so that the future could be delivered that much quicker for all of us. That is what President John F Kennedy had in mind in 1961 when said to his fellow Americans: 'Ask not what your country can do for you – ask what you can do for your country'. It is this question that we forget to ask ourselves every passing day.

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A new start, post-2014

When considering where we started in 1994, and where we are in 2014, can we be satisfied or should we be deeply disappointed with the level of progress made during these first two democratic decades?

Perhaps, we should first attempt defining what we want to achieve. For a long time, the largest section of our population was excluded from fully participating in and enjoying the fruits of a highly productive, modern economy. Besides the obvious materialistic benefits, there are also the social and spiritual gains that we require for self-realisation, which millions have lost out on.

To reverse this, from a structural perspective, we need young people to attend school, adding to their human capital, which, in turn, will stand them in good stead throughout their working and social lives. Following on this, we would like as high a percentage as possible of the potential labour force to be gainfully employed in decent work.

At the present juncture, neither reality prevails. We want much higher education standards (at least 60 per cent pass rates, in line with advanced world standards), much lower dropout rates throughout the school population, a high pass-through to matric, and a very high pass-through to colleges and universities (think South Korea if you have to pick a role model).

As a consequence of the above, better educated youngsters will find their way into the labour market. Since it will take time to grow this education pipeline, strategies will have to be found to absorb lesser-skilled people productively, steadily lowering the levels of unemployment and discouragement. To achieve both of these objectives, we will need policy to shift 'radically' from the prevailing reality. In which direction will such 'radicalism' be encouraged to develop and with what kind of results/consequences?

There seem to be four distinct futures opening up for us, as they have done in each of the preceding 20 years, ever since we started on this road in 1994.

Firstly, we could leave things be and muddle through as we have, with no apparent change in performance parameters, or indeed a deterioration, depending on how the results are to be presented. This would put our democratic fabric under further strain and might ultimately culminate in societal revolt.

Secondly, we could double up on the kind of interventionist policies pursued to date (for instance, experimenting yet more with the substance of education, and favouring yet more interventionist trade and industry policies, following the prescriptive tenets of the New Growth Path) and proceed to land redistribution and partial mining nationalisation.

Thirdly, we could opt for different kinds of policies (for instance, addressing the teaching ethos, and qualifying general trade union power by way of the secret strike ballot and interest arbitration), radically departing from the present policy mix, and potentially having an entirely different impact. Instead of being a traditional commodity exporter attaining limited benefits from industrial import replacement, which neither provides sufficient incentive to intensify the long-term development process nor offers the means to sustainably thrive in an increasingly competitive world, a modern approach to trade and industry policy would be to put far more emphasis on developing our human capabilities and infrastructure, and allowing private enterprise to use these as trading platforms into increasingly complex global value chains, finding export potential wherever it might be found.

Yet more education experimentation could lead to even greater backlogs if it fails to deliver. The same applies to further interventionist trade and industry policies, land redistribution and industry nationalisation. Limiting the powers of teachers' unions to disrupt education, and placing greater demands on quality teaching, which should be the real basis for offering increased remuneration, and restraining general union power to more reasonable limits (just as businesses are restrained by the Competition Commission), could have promising potential, but might falter if it ignites opposition to the demands for change that it makes on unwilling participants.

Fourthly, is a compromise, the NDP, which can be described as a set of non-radical policy initiatives that, nevertheless, attempt to achieve 'radical' outcomes when measured against our intentions. One rationale for favouring the NDP is that

a less 'radical' approach might call forth less debilitating resistance and actually allow successful achievement if fully implemented without getting derailed along the way.

However, all of the above comes with a few qualifications. The NDP is recognised as ideologically neutral, yet it retains the distorting black economic empowerment and affirmative action emphasis. Furthermore, the government is allowing the ideologically neutral NDP to be accompanied by the non-neutral New Growth Path and Department of Trade and Industry-prescribed policies, in addition to which loom a 'social pact' and the apparently widespread belief in some circles in consumption-led development (the latter having been tried of late in Brazil, and found wanting). So, whereas the NDP may be non-ideological, even non-radical, the government appears intent on skewing the balance of the policy ticket, so to speak, with baggage attractive to its alliance partners.

This raises a number of important questions. There is probably little disagreement about what a satisfactory 'radical' future in terms of outcomes could look like. We all want more education, more work, more income, more consumption and investment, more wealth, and better-looking and -performing cities and infrastructure, more fairly distributed. However, the non-radical NDP approach, with its projected radical outcomes, appears somewhat sneaky in wanting to overcome any and all resistance by proceeding gradually, if persistently, and yet still transforming our playing fields so fundamentally. It would also probably be the longer road travelled, by retaining some distorting elements and having to internalise the consequences of resistance, and this presumably in the face of a rapidly rising tide of impatience and protest. By trying to please everyone, the NDP might ultimately succumb to its own incoherence.

Whether the NDP could survive being implemented on its own is unproven. As things stand, most thoughtful initiatives to improve education by keeping teachers accountable are resisted by unions. Higher salaries are not matched by improved outcomes. This is a societal bottleneck that needs to be addressed with the utmost urgency, for a lack of decisive progress in education outcomes would be fatal to our overall development performance.

So what is the real problem holding us back? It may very well be the fear of change. The muddling-through scenario might provide more certainty, but ultimately we would run out of runway with the impatience of many in our midst. Could a solution be found through less confrontational, more compromised attempts of a non-radical nature that might still achieve the societal breakthroughs that we require?

Our becalmed stagnation drift

Where do we find ourselves today? Vigorously modernising as we radically transform our society and economy, providing it with the means to speed up our development, reminiscent of successful Europeans or Asians preceding us? Steadily demolishing old structures and inventing destructive new ways of doing things that erode the capacity of the state and water down democratic accountability? Are we in a state of near suspended animation, destroying institutional fabric but not fast or thoroughly enough to be immediately catastrophic, while still adding to output, income, wealth and social safety nets to keep the body politic successfully afloat and the larger impatience and restlessness at bay?

Of these three scenarios, the last seems to fit the bill closest. Still creative while destroying; keeping us stationary rather than collapsing; and not at all succeeding in really making the kind of progress towards the radical job-creation, income and wealth outcomes that are craved most. At the same time, there is a proliferation of increased radicalism to break perceived logjams, without addressing the deeper structural causes.

In retrospect, we have never since 1994 succeeded in sustainably breaking out of our 'old' apartheid-era 'repressed' growth potential. The promising 1994/1995 cyclical upswing fizzled out early; we were sideswiped by the 1998 aftermath of the 'Asian Contagion' and by our misguided response of currency support, and we were caught by another rand and interest rate shock during 2001/2002. In sum, our growth performance throughout this first democracy decade remained at a sub-par 3 per cent (with a trend line nearer to 2.7 per cent).

Only between 2004 and 2007 did we succeed in breaking out towards growth of 5–5.5 per cent, but it all turned out to be artificial and non-sustainable, with the very temporary stimulus of World Cup Soccer preparations triggering the start of multiple public sector infrastructure projects, but their momentum proved unsustainable due to capacity problems.

The private sector response was a non-sustainable household mortgage, credit and motor car boom. When the dust settled, households were over-geared and the infrastructure collapse was upon us (with the first bouts of Eskom's 'load shedding'). More importantly, banks and their regulators had discovered that credit and debt securitisation criteria in many global jurisdictions were thoroughly compromised. Thus, South Africa also recognised that home lending standards had not been particularly conservative for a long while. The household mortgage debt tap closed abruptly as 2008 proceeded, with events overseas causing a global panic and recession.

Coming out of the 2009 recession felt normal enough, but growth barely topped 3 per cent before 2010/2011 started to create queer sensations. Even with the economy heavily underutilised, with much slack (except in infrastructure), growth started to collapse anew despite accommodative fiscal and monetary policy stances and the new emphasis on unsecured, more costly credit for households.

Business confidence was doing something it had never done before in the 60-year post-Second World War period: it did not recover properly after the 2009 recession ended. The most telling statistic of this post-2009 period was the

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RMB/BER Business Confidence Index. It *always* went to near zero in South African recessions and *always* recovered smartly to near 90 (out of a maximum 100 reading) in cyclical South African upswings. Not this time.

Something had started to fundamentally misfire. Externally, it was the global commodity supercycle peaking and declining from 2011, after more than a decade of running up steeply. This meant that South Africa's terms of trade went into decline, eroding real national income, with slow global growth also tempering our main export markets.

Domestically, electricity constraints kicked in from late-2007, which dashed hopes for higher growth rates by capping electricity availability, thus making production uncertain and inhibiting new investment. Concomitant rises in tariffs were felt by individuals directly, but also indirectly as a result of the higher cost of production that was passed on to consumers.

Banks closed the taps on residential mortgage lending, tightening lending criteria to over-borrowed households. Residential building activity halved from peak 2007 levels and has traced out an extended recession trough ever since.

Major waves of labour unrest affected, at times, mining, manufacturing, construction, transport and public sector, causing output to be lost and costs to be increased.

Since President Jacob Zuma entered office in 2009, there has been a marked increase in the number of regulatory interventions made in many industries, increasing costs and making business life more uncertain. As growth prospects dwindled at home and business confidence refused to break into positive territory, the number of South African businesses announcing ambitious diversification targets in overseas markets, elsewhere in Africa, Asia, Europe and Australia, kept mounting steadily.

Government spokespersons referred to this as a 'private sector investment strike', but this was a misnomer, of course. Business was not the ultimate cause of dwindling growth opportunities. Businesses were not denying themselves worthwhile South African growth opportunities. Instead, it was the business climate that gradually deteriorated. Businesses are not public enterprises – they are supposed to generate profits and, hence, sought alternatives elsewhere to sustain their growth and earnings curves.

With the state not providing additional structural stimulus to growth during these difficult years, and the economy further strained by strike action, such as the platinum and metal workers strikes of 2014, the economy is structurally on a bad footing and its short- to medium-term prospects look gloomy (GDP growth in 2014 is expected to be less than 1.5 per cent). Against this backdrop, the International Monetary Fund (IMF), the South African Reserve Bank and foreign rating agencies have warned that more needs to be done to rekindle the country's growth engines.

Ever since 2008, the South African economy has reminded one of the years following the last great gold boom, which fizzled out after 1981/1982, with massive rand and interest rate shocks, and yielding a decade to 1993 of barely 1 per cent average growth.

That 'lost' decade of the 1980s mainly reflected a country losing the plot locally and greatly overextending itself financially (fiscally and externally) until payback time enforced its own discipline.

Since 2008, a new lost decade may have been taking shape for South Africa, partly globally instigated but mainly locally imposed, with as yet no end in sight to the constrained terms of trade externally or the supply-side caps domestically, with confidence at a low ebb and many businesses channelling their growth energies overseas for the time being.

Economic forecasts, private and public, keep talking up a good game of returning to 3 per cent (and higher) growth 'from next year', but this has been the story since 2010. Since then, growth has consistently disappointed on the downside, and the supply-side misfires (industry, labour, infrastructure) have kept increasing.

Projecting forward what we know about the world economy, policy intentions, commodity conditions, capital flows, interest rates, our many supply-side constraints and government policy stances, there seems little likelihood of escaping this semi-stagnant 2 per cent sub-par growth performance for much of what remains of this 2010s decade. Reckoning from 2008, this *will* have been another lost decade, on a par with the 1980s, if for slightly different reasons, but still with a major policy failure at the base of the many supply-side misfires.

This completes a dismal picture, one that has us contending not only with pre-1994 structural weaknesses (such as unemployment) but also with often worse structural realities (for instance, in education results, municipal performance, labour relations restlessness and infrastructural shortcomings). Instead of breaking out ('radically' or otherwise), we appear to be stuck in another 'lost' stagnation decade. The only real saving grace here is that the growth in population and labour force has not been greater, for otherwise our structural problems would have intensified at a gallop under mounting population pressure.

As things stand, we are 'merely' saddled with past structural shortcomings, more failings of our own fabrication and, by now, a revolutionary tide of rising aspirations, expectations and entitlements mostly of our own political creation, which will yet make things a lot more difficult as the means to address them continue to dwindle.

A non-accommodative world to 2020

South Africa has an open economy, with a trade dependency of over 55 per cent of GDP (exports plus imports), free capital flows (except for domestic agents beyond certain prudential limits and other exchange control regulations) and a flexible exchange rate policy (the value of the rand being set by market forces).

Our balance of payments on current account has been perennially in deficit ever since the 1994 election. With today's magnitude being of the order of 6 per cent of GDP, South Africa relies annually on up to R250 billion of foreign capital inflows to balance its external books.

The JSE stock market and government bond market are already about 40 per cent foreign-owned. All sectors of the economy count a heavy presence of hundreds of multinationals, many tracing their presence here for a half-century or (much) longer. Many of our quoted companies today have a major presence overseas and, in many instances, they have ambitions to substantially increase this foreign reach before the current decade is out, completing their full-fledged internationalisation. A typical JSE weighted share portfolio today enjoys an income stream of which an estimated 75 per cent originates overseas (and, consequently, is rand-hedged).

These are but a few of the dimensions showing the extent of our global integration, but also our dependence on global performance, goodwill and active interest, which have a direct bearing on our own well-being.

Naturally, with South Africa producing only a fraction of 1 per cent of world GDP, our impact on global developments is absolutely minimal, except to the extent that we are asked to participate as a representative of the greater African continent (think of BRICS and even the G20). We were a founding member of the United Nations, IMF and World Bank.

The larger world, however, has an enormous influence in shaping our affairs, via the trade and capital accounts of the balance of payments. On these two scores, the world is hardly ever stable, either being generously accommodative or turning badly restrictive, depending on which role-players are having problems and which are getting lucky (or making their own luck). To be frank, we have some strange global cross-currents behind us, and still stranger ones apparently ahead of us.

The 2000s started in a wobbly fashion, with the demise of Long-term Capital Management and Russian debt default; but, thereafter, the world experienced reasonably good Western growth, stupendous Chinese growth, an unfurling commodity supercycle pushing export prices ever higher and easy capital availability, with overwhelming capital inflows firming the rand into overvalued territory (reaching R5.60 to the US dollar in mid-2005). The latter also helped to repress our inflation rate.

This happy condition started to show cracks with the onset of the sub-prime debacle in the Anglo-Saxon world from September 2007 (Northern Rock). The true financial crisis erupted a year later (Lehman Brothers) after which financial panic and recession were unleashed. South Africa did not participate directly in this banking and debt crisis, but was fully drawn into the resulting global recession, and also encountered the backwash from regulatory determination to address the root causes of the global banking crisis.

If this was a heavy negative for our export trade, the Western policy response was fiscally and monetarily highly accommodative, preventing global (and South African) depression from setting in, but also unleashing years of zero interest rates, low advanced-country bond yields and intense yield-seeking by global capital, favouring especially high-yielding emerging-market assets.

South Africa, too, found itself thus favoured, and the easy capital access of earlier years persisted, even if now officially driven. These same forces also kept the commodity supercycle prices running for a little while longer, even as the Chinese growth story had already reached a breaking point where a change of direction became prescribed, in its case also only after a crisis support action.

However, 2009 was not only dominated by the US and Chinese central banks. A second global crisis blew up in the closing months of that year, this time in Europe, where an existential threat was unearthed in the manner that certain peripheral European Union countries had played the sovereign debt and banking game after becoming part of the Euro project in 2001.

Northern European insistence on a peripheral fiscal clean-up, and the associated loss of confidence focusing on the potential demise of the Euro, were of such an overwhelming magnitude that it forced greater European Central Bank (ECB) monetary accommodation, on a par with that of the Federal Reserve (Fed), which itself probably extended its policy support for a longer period than initially anticipated, given the precarious state of the world.

The Fed, ECB, Bank of England (BoE) and People's Bank of China (PBoC), the four major central banks, were now engaged in unprecedented monetary support actions. Japan was added to this line-up from 2012, as its new prime minister, Shinzō Abe, decided to follow the American example in trying to break free from a two-decade-long stagnation and deflation, relying on aggressive monetary expansion, fiscal accommodation and structural reform (of which the first proved the strongest).

Many unconventional monetary policy actions have kept the world supported with super liquidity at near zero interest

Weak global growth, and its consequences for commodity demand and prices, will offer headwinds for South Africa, if its export performance remains disappointing.

rates through to today, inflating equity and bond asset prices worldwide and keeping access to external funding relatively unconstrained even for more risky, fragile emerging markets like South Africa.

Although global recuperation was to be very slow after so many major financial crises, it nonetheless proceeded, however modestly initially, led by Britain and the US. These were also the two countries to give the earliest indication that they would start to dial back their unconventional policy stances, firstly by tapering their bond purchases, and ultimately by ending the super-low interest rate regimes (which by themselves had invited some unhealthy investment responses, creating new asset bubbles and debt leverage judged dangerous in their own right going forward).

At the time of writing in late 2014, we find the Fed and the BoE having ended bond purchases, with China also refusing to reignite monetary accommodation. In contrast, Europe has shown evidence of renewed economic weakening. The ECB has indicated that it is prepared to offer more monetary accommodation, but has warned that in order for its support actions to be effective, there really should be a measure of new fiscal flexibility (in financially strong countries) and structural reform (in countries needing this most to reignite their growth).

Such fiscal relaxation and structural reform backing, however, does not seem to be forthcoming to any adequate degree, requiring the ECB to continue largely unassisted in the manner requested.

Thus, while the ECB and the Bank of Japan (BoJ) show evidence of sticking with unconventional monetary policy stances for longer, other advanced central banks are readying themselves to withdraw such support, specifically from 2015 onward starting to raise interest rates, if very gradually, and fully 'normalising' probably only from 2018. This global divergence in central bank policy stances is likely to feed major shifts in global capital flows and currencies. It is likely that the divergence will deepen steadily throughout 2015–2018, in the process affecting global conditions, also for many emerging markets, some of which (like South Africa) remain highly exposed because of very large balance of payments deficits.

The picture sketched here has growth and balance of payments implications. Various authorities (the Fed, IMF, ECB) have warned of slower European growth, and slower Chinese growth, while US growth remains modest (if persistent), with still considerable labour slack in evidence.

Weak global growth, and its consequences for commodity demand and prices, will offer headwinds for South Africa, if its export performance remains disappointing.

In addition, rising US interest rates will probably need to be matched in exposed 'fragile' countries, in order to prevent disorderly financial market conditions, weaker currencies, higher inflation and interest rate shocks.

Even so, weak export growth, weaker terms of trade and higher domestic interest rates over the next few years are likely to offer yet more headwinds for South African growth performance, reinforcing any weakness of domestic origin.

Thus, the outlook for the remainder of this decade towards 2020 is somewhat grim (though not necessarily desperate), as low South African external export growth and prices combine with currency pressure and higher domestic interest rates to keep our growth low to very low, even when compared to its repressed pre-1994 apartheid potential of 3.5 per cent.

This is the best case outlook, resting partly on the assumption of only a very gradual Fed policy normalisation, the absence of disorderliness in global financial markets, and the ECB and BoJ functioning throughout as a balancing act opposite the slowly withdrawing Fed and BoE.

Things could still turn out a lot wilder, and even more difficult to handle for us, especially if there were still to be downside surprises internationally, with new crises to contain. The full-horror risk of the 2010s has hardly been sketched yet, but what has been noted so far here is bad enough, hobbling South Africa's economic performance well beyond its own contributions.

South African windfalls in the 2020s and 2030s

Although many would like to believe that it is, South Africa is not unique. Nevertheless, it certainly has followed a very particular modern development route for the past 150 years since diamonds were discovered. Nobel Prize-winner Arthur Lewis would have defined it as a resource-rich developing country, which achieved industrial modernity through commodity exporting and import substitution.

De Kiewiet (1941) claims that South Africa developed, in part, through experiencing economic windfalls and using these to get to the next level of development.

It is on this score that the old models have hardly yet run their course. We remain a resource-rich country whose first order of business is apparently not to beneficiate its human capital stock so that it might compete in the global marketplace and gain from international specialisation, while expanding its domestic economy at the same time. Instead, we tend to exploit our natural advantages, gain external

income windfalls and let these create import markets, which afterwards we try to internalise through import-substitution and export beneficiation efforts.

We tend to stagnate as a country in the absence of external windfalls, even backsliding if headwinds become too strong, but these episodes tend to be temporary. The world is inclined to correct for failure, and move on, in the process creating new advantages for resource-rich countries like South Africa.

One example of a global windfall was the commodity supercycle of the 2000s, where South Africa benefited from rising commodity export prices and the country's terms of trade, but internally was so disorganised that mining output did not rise to any significant degree (with falling gold output negating limited rises elsewhere in mining).

Another such windfall, although not commonly recognised as such, was the stupendous inflow of foreign capital in the 2000s, almost entirely 'pushed' by overseas triggers, and far outweighing the South African commodity riches of that decade in terms of impact on internal asset prices, the rand, interest rates and economic activity.

External headwinds become visible when such windfalls dry up. This has been our reality in the 2010s so far, with our export commodity dollar prices in many instances well down from 2011 peak levels, causing our terms of trade and real national income to deteriorate anew. As noted earlier, South Africa has been experiencing more external headwinds than windfalls in the 2010s, at least to date, and this is projected to last for at least for the remainder of the decade. But what of the 2020s and 2030s?

Will the wheel of fortune turn once again, as it has done repeatedly over the past 150 years? Could it give us yet more resource windfalls? Would this, into the bargain, provide an incentive to stay with our traditional development model? Would we keep relying on infusions of natural riches to lift our national income, exploit expanding import markets to substitute and further industrialise and modernise the local economy, also by beneficiating mining exports? Would we rather make it our priority to use the proceeds of resource windfalls to beneficiate our human capital stock as a first priority? Should we make our own luck through foreign trade by participating more aggressively in global value chains?

These are not small questions; indeed, they define our entire development ethos, as much in the past as in the future. Will we break our 'De Kiewiet mould' (relying mainly on resource windfalls as development push factors) and change our national character away from the Lewis typification (remaining a resource rich country modernising through import substitution and export beneficiation), instead of making our human capital stock the centrepiece of our development efforts?

As things stand, there remains a great conviction that further beneficiating our mining output is the development route to take. Yet we do not have the electricity to do so. Instead, should we not simply use our resource endowment and any windfalls coming our way as national income generators that will allow

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a greater emphasis on beneficiating our human capital stock, and engaging more deeply with global trade by participating more intensely in global value chains at the core of modern global trading?

At the bottom of headwind decades, mired in stagnation of whatever origin, there tends to develop a restlessness about the absence of progress, providing an incentive to explore 'new' development approaches.

The present decade seems to represent an instance of history repeating itself. This time, will we really make a break with the past? Will we once more want to beneficiate mining output, instead of sustaining mining as an income generator and focusing mainly on 'beneficiating' our human capital and through it seek richer and more widespread human development? The 2020s and 2030s will probably again offer at least three potential windfalls to South Africa. Their presence may tempt us to continue with the old development choice of trying to beneficiate yet more metal, but it will also offer the possibility of using mining and other windfalls as income generators that will allow us to shift development emphasis towards beneficiating human capital.

We do not need to stick narrowly to the Lewis/De Kiewiet development model. There is scope to go wider, given our enormous structural development backlogs and the need to achieve a more comprehensive, complete development result.

However, within this context there remains obvious scope to benefit fruitfully from any fortuitous resource windfalls coming our way, provided these are utilised to general advantage rather than being captured and harvested by narrow interests driven by self-enrichment.

Still, temptation will lurk at every corner, for the potential windfalls could again be very substantial. In particular, gold, platinum, coal, diamonds, iron ore and plain foreign capital flows have offered serial resource windfalls these past 150 years, with every wave somewhat different in composition to the previous one. The 2020s and 2030s promise to be no different, with yet another new resource mix and twist.

Firstly, one obvious priority for the world will be to recuperate fully from the Anglo-Saxon and European financial and economic crises of the 2000s. If, at the same time,

Japan could escape more successfully from its stagnation and deflation realities of the past three decades, and China could make good progress in moving away from its infrastructure-investing-and-exporting paradigm towards a more consumption-based one, along with a healthier financial system, the world economy would be geared for faster growth from these traditional sources. In addition, it could also be getting new stimulus from fast-growth regions elsewhere in Asia, Africa, Latin America and Central Europe. Such an outcome might not look like a windfall, but compared to the slow growth of the 2010s, such a global speed-up would be fortuitous for us and other emerging markets like us.

Secondly, the global commodity cycle may end its underperformance of the 2010s as faster global growth and higher demand intersect with more constrained commodity supply after some years of restrained new commodity investment. Commodity prices could re-enter a rising phase in the 2020s. In the first instance, this would offer South Africa another opportunity to benefit from improving terms of trade, boosting national income, as during the 2000s. As a second consideration, it would offer us another opportunity to participate in a global commodity output upswing, something we foreswore during the 2000s, but which we would be wise not to forgo in the next such global upswing.

Thirdly, there is already clear evidence of yet another commodity arrow to add to our richly endowed country's quiver. International technological breakthroughs have come up with methodologies that allow for the so-called 'fracking' exploitation of shale gas. South Africa reportedly sits on the fifth-largest reserves of such gas in the world in the Karoo Basin. It potentially makes us as rich as Saudi Arabia in terms of energy reserves.

While the preparatory stage might take a decade or longer, especially to address environmental concerns, once the regulatory requirements have been met, full exploitation may proceed. Such gas exploitation may initially feed into electricity generation (and even, over subsequent decades replace coal-fired generation). Thereafter, it might ultimately replace our present oil imports (currently running at US$20 billion annually on average).

These are enormous resource potentials, which, as well as demanding large-scale fixed investment in new plant and infrastructure, would offer further stimulus to our development.

This new wealth of energy, probably only gradually gearing up in the course of the 2020s, will thereafter have the potential to enrich our development not only for decades, but even for centuries to come if the reserve estimates are anywhere close to realistic, and the technology proves enduring.

Both a successful right-sizing of the world economy and the completion of the pilot work on shale gas fracking and its regulatory demands this decade would position South Africa for another major development push in the 2020s, possibly only reaching full thrust in the 2030s and beyond.

If such global advantages and natural resource boosters could be coupled to greater success in getting our development efforts to perform, especially by boosting our human capital and infrastructure stock (rather than seeking salvation in yet more metal beneficiation, as in the past, never mind making poor and expensive bets (such as on nuclear energy), our growth story would probably be quite different to that of the two decades since 1994.

The central theme would then become the harvesting of our youthful demographic dividend, so far left completely dormant. The term 'radical' might even become appropriate in describing such a possible outcome for future decades.

Societal polarisation: resistance to change

Authoritarian systems do not necessarily have it easy, but they often can force through change, despite much opposition, however unwanted and misguided the change may be (for there are no other natural checks on its soundness).

Democracies, in this respect, are sounder in being able to mobilise far greater expertise than the authoritarian power, and in having the will of the political majority acknowledged, via either the government or interest groups. Even so, democracies may become so fragmented and ultimately polarised that the ability to overcome resistance to major structural changes can be debilitating, with even relatively small minorities successfully obstructing major proposals.

South Africa passed through its authoritarian phases (colonialism, white minority rule and ultimately apartheid) and found itself for the past 20 years in a majority-dominated democratic phase. Nevertheless, fragmentation has been with us from the beginning, and we find our society today far advanced in its political polarisation, where interests often differ fundamentally and where any major change initiatives are obstructed successfully, often even by small splinter groups.

It may appear easy to build an additional one million housing units in the Cape Town metropolitan region, but the land issues may defy you.

It may appear easy to reform education by getting teachers to perform better in failing schools, but try to get past the teachers' unions concerned.

The secret strike ballot and interest arbitration may appear to be easy measures to pacify our restless industrial relations, but the deeper issues might not be addressed and the unions might not cooperate.

The government thought it could create a wonderful new tax source, only partially funding the maintenance and building of new highways while also supplying the general Treasury coffers. A citizen revolt was ultimately set in motion regarding e-tolling.

It may appear to be a cinch to exploit the Karoo Basin shale gas reserves, but many environmental interests will try to prevent it by tying it up in litigation.

It may appear simple to declare land reform, but try implementing it.

One could continue down the long list of modern disagreements preventing rapid reforms from being implemented, whether misguided or brilliant in their intentions.

This is not a minor feature of our existence, for despite having a majority-dominated parliamentary democracy, proposing structural reforms is one thing but successfully implementing them is something else. Is the money available? Is there the necessary technical and people capacity? Can well-organised sectoral resistance to change proposals be overcome?

Ultimately, this makes the entire 'radical' reform agenda a double-jeopardy gauntlet. Firstly, one must make sure of proposing the right reforms, whether radical or not; and, secondly, one needs to overcome resistance from whatever quarter it may arise.

Getting both wrong (misguided reforms, railroaded through) could spell potentially irreversible disasters. Getting both right (workable reforms and the successful overcoming of resistance) is the ultimate challenge.

The more 'radical' the proposed reforms, the more vigorous the likely resistance. In our kind of society today, this puts a premium on not only getting the reform proposals right but also on these being sufficiently uncontentious to provoke little resistance (or, at least, being able to overcome it).

South African radical reform agendas

The country's past ensures two broadly 'radical' reform schools – those preferring big government interventions, and those favouring more market action.

The intellectual foundations of the one radical approach prefer change in the fundamental tenets along which society is organised, with greater emphasis, thus, on equality and less on market-achieved property ownership.

Incomes must be more equal, wealth must be less unequally spread, access to public services and infrastructure must be easier for all to have and afford, with the various racial groups and genders having their demographic profiles reflected in every activity or presence.

This requires state intervention in every possible nook and cranny of society if the inequalities engendered by past processes are to be rectified.

In contrast, the intellectual foundation of the other radical approach is to allow personal initiative, ability, talent and luck to decide how society organises and divides its spoils, with private ownership the main incentive, but with state taxation, subsidisation and regulation to achieve a more egalitarian and efficient outcome than private ownership alone would provide.

Either agenda is perceived as radical by its opponents and at variance with its interests. Thus, we encounter enormous resistance to land expropriation, substantially raising tax burdens (income, VAT, corporate, capital gains, inheritance), spending excessively on social welfare, forcing through certain expensive (e.g. nuclear) or environmentally unfriendly

> With South Africa's history of discord, violent clashes and war, and deep distrust, the Constitution is an important document. It defines what is radical by way of departure from its central tenets.

(e.g. shale gas fracking) infrastructure investments, curtailing labour union rights and the freedom to strike (teachers, miners, public servants) and following population demographics rather than skill sets and talent in employment practices.

What do we have left, besides a simple shopping list and the 'wish' to achieve a certain outcome closer to one's liking? Short of revolutionary upheaval, it is the South African Constitution, part and parcel of the historic deal that led to inclusive democracy.

With South Africa's history of discord, violent clashes and war, and deep distrust, the Constitution is an important document. It defines what is radical by way of departure from its central tenets. This document enshrines the rule of law and underwrites private property. Changing it requires a two-thirds parliamentary majority. If changing the Constitution is not at issue, any policy changes would have to be attempted within its guidelines. What, then, lies within the government's grasp without resorting to amendment of the Constitution?

It can ensure sound national finances, taxing judiciously in order to obtain resources for the state, without creating such disincentives as to undermine economic activity, saving and new investment.

It can maintain efficiency in the public sector and, to this end, appoint employees on merit, in terms of well-defined educational criteria and experience, removing staff from leadership positions where they have failed, and promoting staff where this is in order, inspired by merit and achievement rather than any other consideration.

It can discipline state expenditure on salaries and benefits, according to state affordability, and maintain a healthy balance between taxing and borrowing, and between expenditure on social services and physical infrastructure. Such an approach should limit deficit financing, prevent waste and ensure sound planning for future infrastructure needs and the implementation thereof.

The state should regulate private business where appropriate, augmenting market actions in ensuring transparency, efficiency and fairness, and protecting households to the extent deemed appropriate, but limiting its intervention to the

The government should fulfil the role of supportive agent, freeing private enterprise in greater society to take big future risks and applying its skills to their fulfilment.

necessary rather than attempting to decisively shape the nature and structure of businesses and the sectors they operate in.

By government being seen as supportive and fair, and ensuring appropriate and sufficient future infrastructure, providing a critical mass in spending demand, private businesses will gain confidence from such an example and leadership and be more inclined to invest and expand their businesses, expecting growth opportunities to follow.

Whereas the private sector can do the heavy lifting, given its capital resources, knowledge and wealth of experience, the government's role can be crucial in setting an example, providing leadership, preventing excesses and offering backstop stability, taken as tokens of its strong presence to address major, unexpected surprises or failure of whatever kind as the largest, non-profit, entity with long-term vision, staying power and control over the levers of state (as again amply demonstrated in major overseas crises these past ten years, varying from financial, epidemic to nuclear disasters and war).

Such 'effective' state action is not a given at any time, and can never be taken for granted. Indeed, its actuality is a miracle of organisation. Similarly, winning the confidence of private agents, and getting them to commit to large-scale risk-taking in pursuit of ultimately uncertain ends may count as miraculous.

Therefore, when one is looking for 'radical' means to achieve 'radical' outcomes, one does not necessarily have to first destroy an existing dispensation that has proven productive wherever it has been led effectively. Neither does one have to bludgeon democratic agents into unwanted straightjackets in the name of some ideal, sterile or otherwise.

The essence of democracy is freedom, sensibly lived; and, following Amartya Sen (1999), one can see 'development as freedom'. It is our Constitution that guarantees 'freedom', which is the golden thread linking democracy and development. By departing from freedom, one jeopardises democracy and development. This is how radicalism should be seen and defined.

In our state of freedom, as protected by the Constitution, the government should fulfil the role of supportive agent, and partner, allowing the spreading and managing of risk, in turn, freeing private enterprise in greater society to take big future risks and applying its skills to their fulfilment. This is the kind of 'exceptional' partnership that comes recommended, given the kind of examples to be had overseas on all continents, where historic successes have been as plentiful as failures, making it unnecessary for us to try to reinvent the wheel.

On this score, common sense is a prerequisite, preventing us from being bamboozled by examples elsewhere, where kinship or ideological preference gains precedence, but at the risk of our making new and horrendous mistakes that would take the nation on new detours from which it would be difficult and very costly to recover.

We inherited a flawed but functioning society from the past. We should nurture in that fragile plant what has proven its resourcefulness before, correct for flaws, prevent new erring, and otherwise grant citizens their natural freedom to shape their lives on playing fields competitively structured and regulated.

Failure is an option

Fifty years ago, Henry Kissinger liked to relate that if you asked a bureaucracy for advice as to what to do, there would invariably be an offering of three options, two clearly out of the question, and the third the only preferred option of the bureaucracy itself.

Such sleight of hand is not the intention with this analysis. It could never be 'my way or the highway'. South African society is far too complex for that. Still, we regularly hear the cliché, 'failure is not an option'. That may sound trite, or inspirational, but it does not guarantee happy endings.

Indeed, true revolutionaries aiming to create new dispensations by overthrowing old ones often actively work for failure so that their preferred outcome may have a greater, easier chance of coming about. Most South Africans hopefully do not fall into this class, rather seeking genuine answers to complex problems in search of desired outcomes. Even so, failure could still eventuate, by not doing the right things, by undoing what works and replacing it with what does not, harvesting stagnation even as the tide of aspiration, expectation and entitlement inexplicably keeps rising, driven by populist political promises or the awakening of a population seeking to obtain what is already enjoyed elsewhere.

So what happens when poor choices are made, society does not address its structural challenges adequately and the majority of the population remain outsiders not fully participating in the fruits of progress, relegated to the caboose for the duration of time?

Failure to convert outsiders into insiders sets us up for intensified confrontation. This would be a direct threat to democracy and freedom and, thus, development, as anarchy or renewed repression, and lack of progress (in particular), would follow as elites ring-fence their interests, or populists ineffectively rule the roost without regaining development momentum.

Societal breakdown can have many features. It expresses itself in the visible unrest and protests of those falling outside of safety nets or into poverty.

Functionally, market processes start to fail as power groupings exploit their relative strengths.

The state wastes its resources on public sector salary consumption, without gaining productive contributions for such outlays.

Productive society is bled dry through active taxation and corrosive inefficiencies.

There is a greater drain out of the country of capital and skill sets. What is left behind increasingly approximates a subsistence economy, first at the margins, but spreading increasingly inwards.

This is a progressive illness, until it consumes most of society, at which point previous achievements in living standards are lost. For just as there can be progress and growth to higher levels of living standards, so too can there be steady backsliding. The following are grave dangers in this regard:

- keeping the population undereducated and unemployable;
- insisting on demographic preferences rather than merit in employment;
- wanting to keep on beneficiating natural resources, rather than using them as an income-generator and allowing greater beneficiation of the human capital stock, and entry into global trade by participating in global value chains;
- overburdening the economy by excessive taxation and regulation, and not using state resources productively;
- creating distorting disincentives to entrepreneurial activity, especially for capital-poor start-ups;
- allowing viable industries to be destroyed through inordinate labour demands; and
- failing to overcome the trust issue, repressing confidence and inviting migration.

This list is not exhaustive, but the pointer in each case is in the opposite direction of where it should be heading. Too many of our societal indicators are heading the wrong way.

Rather than demanding more 'radical' action to turn things around, there should be more voices calling for common sense. What will work and what clearly will be destructive? A functional society is a cooperative one, adhering to rules, in our case laid down by the law, governed by the Constitution. If we sidestep this simple concept, we start sliding.

Some reflections on our internal challenges

If we consider our two main 'radical' South African agendas – state intervention and state authority, on the one hand, and individual liberty and constitutional authority, on the other – and we consider what the 1994 Rainbow Nation model could have achieved, it would seem that the ANC government has failed us on the liberty theme, especially of late.

Rather than demanding more 'radical' action to turn things around, there should be more voices calling for common sense.

It has also become evident that the government has been steadily switching to the interventionist model in recent years. Instead of fixing the earlier mistakes in getting the 'rainbow model' to work (and to work ever better), the failures have escalated (with the impression of yet more to come).

To make its authoritarian model work, the ANC government is increasingly manipulating the rules of our democracy (that is, the rules of our Parliament and the operation of our constitutional institutions, such as the Public Protector).

What does this imply for transformation failure (the non-achievement of radical outcomes)? As far as economic policy is concerned, the ANC is not transforming it, but instead is lurking back to the state-led approaches of the previous dispensation. It is actively resisting correction of this failure. That was not supposed to happen, was it? Were we not supposed to transform *away* from this condition, rather than to converge on it anew? With similar outcomes, too?

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