

South African Futures 2035

Can Bafana Bafana still score?

Jakkie Cilliers

Summary

Using updated population forecasts, this paper presents alternative growth scenarios for South Africa up to 2035, and their implications for employment, politics and poverty. 'Bafana Bafana Redux' is the expected current trajectory. This scenario takes into account the impact of policy incoherence and the electricity supply crisis on South Africa's long-term prospects. With concerted effort and much greater focus, an improved future, dubbed 'Mandela Magic Lite', is possible – but neither scenario has a significant impact on structural unemployment. South Africa will only achieve long-term stability and prosperity with a leadership committed to inclusive political and economic practices.

SOUTH AFRICA IN 2015 is a very different place from the South Africa of just 30 years ago and it is certain that South Africa in 2035, 20 years hence, will also be quite different from how the country is today.

Three decades ago, in 1985, South Africa was experiencing a partial state of emergency as the legacy of the Soweto riots of 1976/77 had ratcheted up pressure on South African Prime Minister PW Botha's government and the entire apartheid edifice. Wagging his finger at his critics and supporters alike, Botha declared: 'We are not prepared to accept the antiquated, simplistic and racist approach that South Africa consists of a White minority and a Black majority' and went on to reject 'one man, one vote in a unitary system'. Botha was characteristically belligerent in his views: 'I have the knowledge because I have the facts. As head of this Government I am in the position to tell you tonight what the facts are.' He went on to reaffirm his belief in independence for those homelands that wanted it and in the importance of protection of minority rights. He rejected calls for the release of Nelson Mandela and spoke about the degree of self-discipline, leniency and patience that he had applied in recent months in the face of much unwarranted advice and criticism.¹

Actually, Botha was not sharing all the facts, for during that same year Minister of Justice Kobie Coetsee had establish discreet, if irregular, contact with Nelson Mandela, then in Pollsmoor Prison Hospital. These initial contacts were sporadic until, in May 1988, Botha ordered that they should

be elevated to the level of exploratory negotiations, and placed responsibility for this with the head of the National Intelligence Service, Niël Barnard. Less than nine years after Botha's 'crossing the Rubicon' speech, Nelson Mandela became the elected president, having won an overwhelming majority in the one-person, one-vote elections as head of the African National Congress (ANC). South Africa had a black president, a new flag and a new constitution.

The events of 1985 remind us how far South Africa has come in 30 years in advancing from the extractive political and economic system to one based on a level of inclusiveness and participation that was unthinkable at the time of Botha's speech. It should also allow us to explore, with an open mind, what South Africa might look like in 10 or 20 years.

South Africa's transition was made possible by the end of the Cold War, the leadership of PW Botha, FW de Klerk, Nelson Mandela and many others, economic pressure and the shared interests of a sufficiently powerful group of South Africans from different political persuasions, who all believed a different future was possible. Some mobilised against oppression; for others, it was a strategic calculation. Despite their varied motivations, however, all who viewed the country as home wanted to change its dismal and apparently apocalyptic trajectory.

During the four years of negotiations, apparently intractable differences and obstacles were overcome because the autocratic leadership tradition within the National Party allowed FW de Klerk to impose concessions that were substantially at odds with the dominant views in his ethnic powerbase. This was necessary since the National Party had no coherent negotiating strategy, consistent negotiating team, or clear vision of a desirable end state; eventually (and luckily) being substantially outmanoeuvred by the likes of Cyril Ramaphosa, Valli Moosa and Joe Slovo. De Klerk was simply not in the same league as Nelson Mandela and liberal democracy – an outcome that had not been envisioned by either of the major negotiating parties – was eventually agreed to through a decidedly undemocratic process.²

The election of Mandela as president in 1994 set in motion a comprehensive, if inconclusive, process of social, economic and political re-engineering. The former 10 separate homelands for black South Africans were reintegrated into the country. The state was divided from the previous four provinces into nine, each with elected representatives at local, provincial and national levels. What had been a centralised, racially determined state with limited franchise adopted a universal franchise and a semi-federal model, and extended political, economic and social rights to all citizens through a progressive Bill of Rights. A country that had been at war with the region (and most of

its populace) ended military conscription for white males, cut its defence budget by half, and became a source of hope and encouragement for the rest of Africa.

A wide-ranging process of land restitution followed in the wake of an inquiry into the most recent excesses of apartheid (the Truth and Reconciliation Commission). Concerted efforts were made to alleviate extreme poverty and advance the interests of the majority black population. These included successive initiatives, including the Reconstruction and Development Programme, and arguably the largest and most expansive programme of social grants to the poor in modern history.

South Africa's high aspirations of liberation are giving way to patrimonial politics with a negative and corrosive influence on investment and growth

Global events since then, particularly the 2008/09 recession and its aftermath, marked by lacklustre recovery, have dealt progress in South Africa a cruel blow, as have uninspiring domestic leadership and an apparent loss of vision by the ruling party. Yet these should not hide the remarkable progress that has been achieved, including rolling out essential services, such as water, sanitation and electricity, alleviating deep-seated poverty and the provision of broad-based education (despite all its flaws and imperfections).

Although not comparable to its near-miraculous escape from impending disaster in the events from 1986 to 1989 (which saw PW Botha dethroned by FW de Klerk, and the unbanning of the ANC and its allies shortly thereafter), South Africa appears again, in 2015, to be at something of an inflection point, although, 'to the uninitiated, South Africa appears to be perennially in crisis ...'³

A series of violent strikes, the impact of a national electricity crisis, which saw gross domestic product (GDP) growth in 2014 drop to an ailing 1.5% (down from 2.2% in 2013) and a resurgence of violent xenophobic attacks on foreigners in a number of urban areas have put pressure once again on South Africa's administration. In his 2015/16 budget speech the Minister of Finance estimated growth in 2015 at a measly 2% – way below the 5.4% average target set by the National Development Plan (NDP) – and indicated that the prospects for job creation and expansion of the economy remain poor.

It appears as if the country is wobbling. Many of its security, justice and even tax-collection institutions – not to mention parastatal companies – are increasingly subject to political

interference. And in the way of many of its postcolonial predecessors elsewhere in Africa some generations earlier, South Africa's high aspirations of liberation are giving way to patrimonial politics with their negative and corrosive influence on investment and growth.

It is evident that, as much as the country has made progress, South Africa has made an incomplete transition to inclusive politics and an incomplete transition towards inclusive economics.

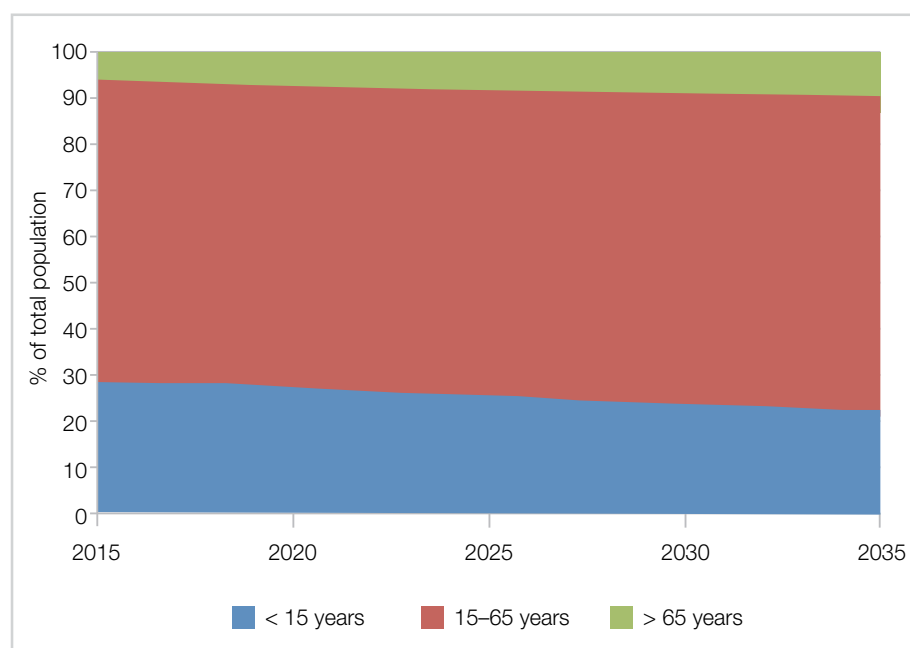
The purpose of this paper is to step back from the headlines and take a structural, long-term view of what the future could hold for South Africa premised on modest growth rates and therefore reasonable but unspectacular progress.⁴

Revisiting South African futures 2030

South Africa has high levels of transparency and good but patchy infrastructure (with some exceptions). Demographically, the country is well positioned for the future, with, according to the National Planning Commission, 'a proportionately high number of working-age people and a proportionately low number of young and old'.⁵ A larger young population promises more consumers in the future, and therefore more growth, but will require a fast-growing economy and many more jobs.

Figure 1 presents this benign population picture, using an updated population forecast from that used by the National Planning Commission. This is based on the 2014 mid-year population forecast from Statistics South Africa (Stats SA). It indicates the percentages of people under the age of 15, the working-age population and those aged 65 and older to 2035. South Africa's working-age population increases from 65% to 68% of the total population over the period – significantly above the African average, although still some decades off the levels of countries such as China and Vietnam. Although delayed, improvements in key drivers of progress, such as education, will exert a positive impact on this growing working-age population's skill levels.

Figure 1: Population by age group, percentage of total, 2015–2035⁶



Source: International Futures (IFs) version 7.09



IMPROVED EDUCATION AND OTHER KEY DRIVERS OF PROGRESS WILL HAVE A POSITIVE IMPACT ON THE GROWING WORKING-AGE POPULATION'S SKILL LEVELS

South Africa's population is expected to reach 67.3 million people by 2035, a large increase from the 2015 estimate of 54.7 million and higher than that forecast by the National Planning Commission.⁷ This increase will occur despite a fertility rate that is expected to fall below replacement levels in about 10 years' time and is the consequence of continued inward migration, declining levels of infant mortality and increases in life expectancy.⁸ The South African rate of population growth is significantly lower, however, than in most other countries in sub-Saharan Africa.

In February 2014, ahead of the May South African elections, the Institute for Security Studies (ISS) published a paper looking at a set of scenarios through to 2030 (the same horizon as the NDP, which became government policy in 2012). These are called 'Bafana Bafana', 'Nation Divided' and 'Mandela Magic'.⁹

At the end of 2014, the severity of the electricity constraint on South Africa's growth prospects became apparent

South Africa's current development pathway – the 'Bafana Bafana' scenario, as discussed in that paper – 'is the story of a perennial underachiever ... in which South Africa strives to break free from its current cycle of inequality and unrest, but never quite manages to. ... The [crisis] clock remains firmly stuck at one minute before midnight in discussions around dinner tables in upper-class suburbs. Meanwhile, the real South Africa actually does relatively well.'¹⁰ It does well despite the lack of a clear policy direction or leadership and little more than nominal commitment to the NDP. Policy proposals do not appear to be subject to sufficient cost-benefit analysis, and there is an absence of policy coherence in government. In sharp contrast to the thorough and detailed impact reports on a variety of areas that are regularly issued by the Presidency, little time is spent looking ahead – there is little prospective analysis or what-if scenarios. As a result, short-term political considerations lie at the heart of decision making and the country's growth is slow. South Africa is generally a divided, unhappy and increasingly corrupt country with its growth potential hampered by contradictory and ever-changing government policy.

'Mandela Magic' (and its two potential routes, 'the future is ANC' or 'the rise of multiparty democracy') is the story of a country with a clear economic and developmental vision that succeeds in implementing the NDP. The 'future is ANC' envisages a reinvigorated ANC leadership after the national elections in 2019, who are able to recapture the political vision

of the Rainbow Nation and are committed to inclusive but rapid economic growth. Instead of espousing an exclusive brand of black nationalism, the ANC returns to the vision of a party for all. Although certain measures, such as more flexibility in the labour market, initially meet resistance, the positive impact on job creation eventually reduces much of the original resistance that impeded faster growth by restricting the flexibility of the economy.

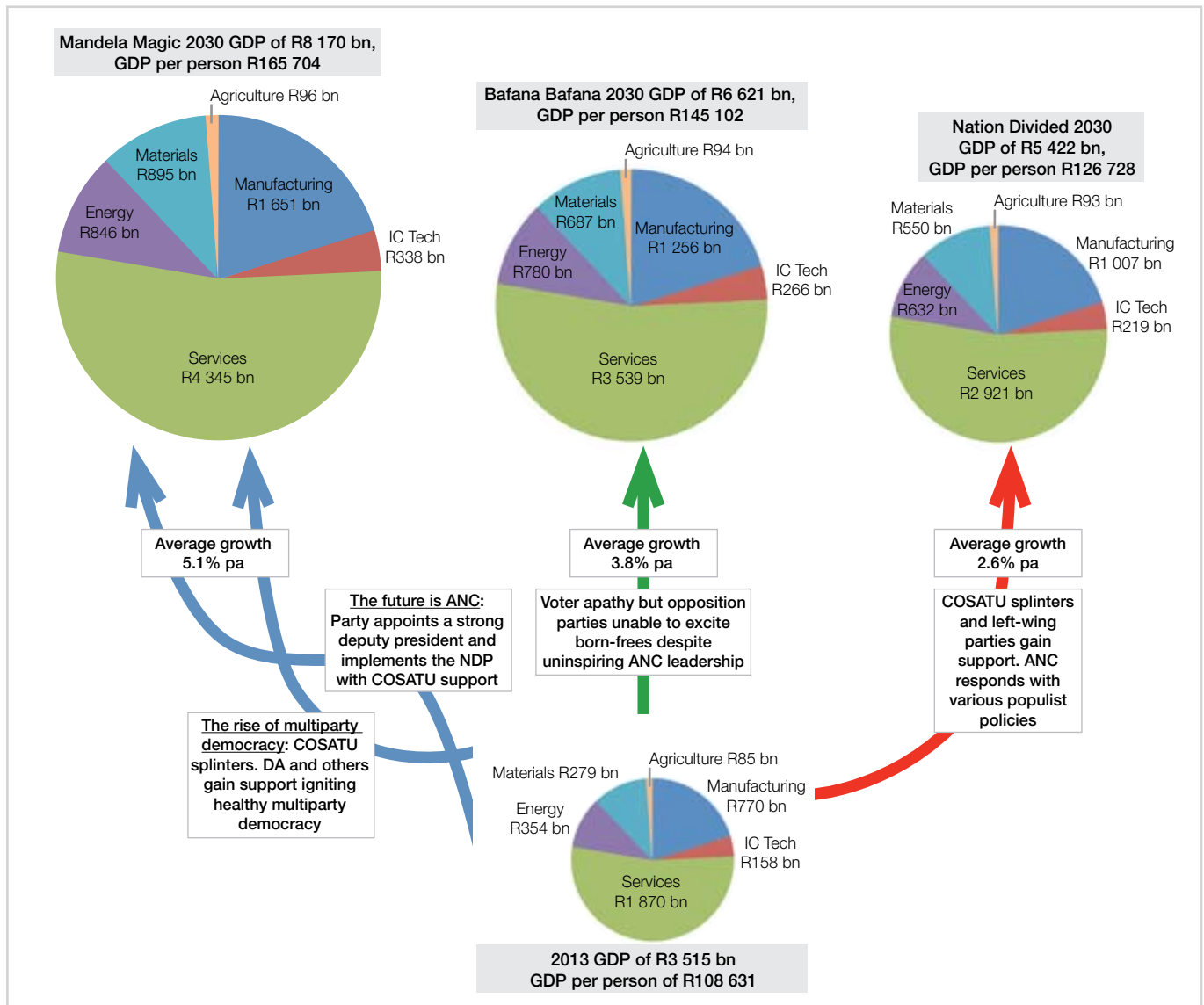
The second route to the high growth that is forecast in 'Mandela Magic' was called 'the rise of multiparty democracy' where competitive politics drives improved service delivery. This trajectory envisages voters turning in increased numbers to opposition parties, such as the Democratic Alliance (DA) and others to the left of the ANC, in local-government, provincial and eventually during national elections. Politics in the country turn out to be robust and competitive as the quality and depth of democracy steadily improve over time.

Finally, the 'Nation Divided' scenario reflects a South Africa that still grows, albeit very slowly. Politically, this is due to two factors. On the one hand, competition for resources in the ANC fuels factional politics. Since different departments and parastatals are beholden to different factions within the ruling party, the objectives pursued by government are often contradictory. Without the necessary experience or qualifications, chief executive officers soon fall foul of the law (or another faction) and, after an expensive golden handshake, a new executive is parachuted in to (re)direct decisions on procurement to his/her connections.

Policies change regularly and the shifting of the goalposts detracts from domestic and foreign investor confidence. Without clarity and consistency, the reams of regulations churned out by a bloated civil service are implemented in a half-hearted manner. Graft and corruption flourish as government expands its role in the economy in an effort to increase employment and sustain patronage. Regular revisions (and reversals) in policy are driven by a disparate ANC leadership, who try to match the rhetoric and demands of parties such as the Economic Freedom Fighters (EFF) by promising a raft of populist policies, such as restrictions on foreign majority ownership and minimum black ownership quotas in domestic business, and by embarking on further measures to appropriate and redistribute land.¹¹ These measures allow the ANC to initially retain support but it eventually suffers a larger decline in support than under the other scenarios, with a debilitating impact on growth and job creation.

Figure 2 reproduces the summary impact of these three scenarios, including the forecast in the size of the South African economy, average growth rates and expected income levels.

Figure 2: Summary scenarios used in *South African futures 2030* (2013 rand value)



Source: Jakkie Cilliers, *South African futures 2030: How Bafana Bafana made Mandela Magic*, ISS paper 253, February 2014, www.issafrica.org/publications/papers/south-african-futures-2030-how-bafana-bafana-made-mandela-magic

At the end of 2014, the severity of the electricity constraint on South Africa's growth prospects became apparent. A weaker than expected global economic recovery, particularly in Europe, which is an important trading partner for South Africa, and continued policy contradiction have compounded poor leadership and a lack of vision. In the short term South Africa is growing at a rate below that foreseen in 'Bafana Bafana'. A number of characteristics of the 'Nation Divided' scenario are also evident. Most ominous is the possibility that the country could have its international credit rating reduced from investment grade to junk status with a debilitating impact on growth prospects. Modern economies cannot succeed if they are not plugged into the global capital market. Accessing capital at a reasonable cost is indispensable for South Africa, a country with an exceptionally low national savings rate. Relegation to sub-investment status on the international markets would see the economy grinding to a sudden halt. This would put pressure on government funding for its massive welfare commitments and halt capital investment.

67.3
MILLION

THE SIZE THAT SOUTH AFRICA'S POPULATION IS EXPECTED TO REACH BY 2035

Prospects to 2035

History and the middle-income trap

Before looking ahead to 2035, it is useful to briefly examine South Africa's growth from a historical perspective.

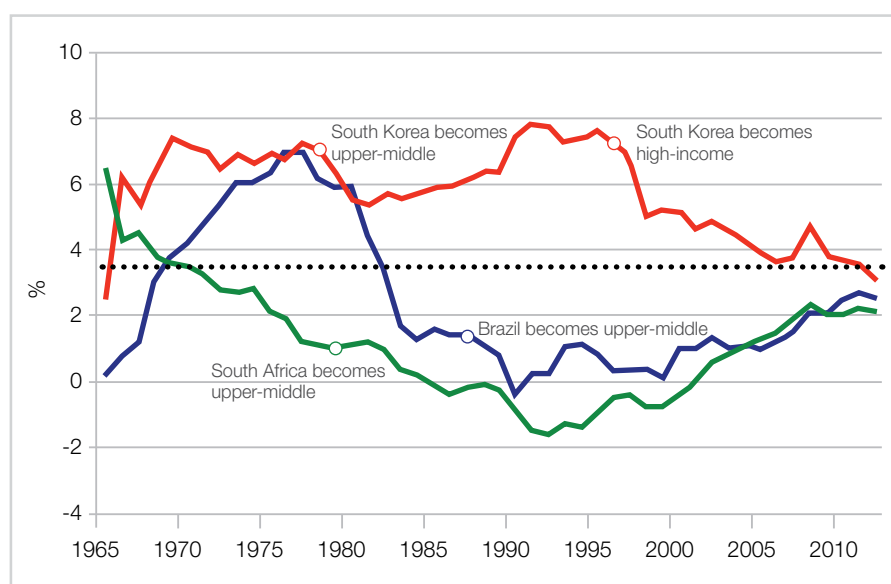
In the 69 years since the end of World War II, South Africa has averaged a rate of 3.4% growth in GDP.¹² With forecasted average growth rates of 3.8% and 2.6%, respectively, to 2030, 'Bafana Bafana' and a 'Nation Divided' reflected the positive structural conditions that are likely to see things in South Africa improve over the long term – even in these muddling-through and low-road scenarios. The reason for this positive outlook was set out as follows:

While there is little doubt that the country faces leadership challenges and requires a comprehensive resetting of key social, economic and political systems, the perennial sense of crisis discernible in the news media is not borne out by deeper analysis of the structural conditions. In reality, South Africa's structural growth prospects are quite healthy.¹³

In addition both scenarios modelled the potential positive benefits of shale-gas exploration in the Karoo – prospects that are now less certain after the fall in oil prices and government regulations requiring a substantial government stake in shale-gas projects. Rapid evolution in the energy market, not dissimilar to changes in the telecommunications industry, adds a substantial degree of uncertainty to energy forecasts.

In 2014 the African Futures project undertook a study on the long-term future of the Western Cape province. The results mirror the findings of the work of others, including the diagnostic review that preceded the NDP¹⁴ and that of economist JP Landman. The Western Cape study states that 'South Africa ... has remained an upper-middle-income

Figure 3: Annual GDP per capita growth rate (%) (10-year moving average)



Source: Eli Margolese-Malin, Jonathan D Moyer, Mickey Rafa and Mohammad Irfan, *Enterprising Cape: Building an inclusive and vibrant economy*, 24 April 2015, www.issafrica.org/futures/policy-brief/enterprising-cape-building-an-inclusive-and-vibrant-economy, 4



MEASURED OVER TIME, THE RELATIVE SIZE OF THE MANUFACTURING SECTOR SHRANK FROM 20% OF GDP IN 1983 TO 16% IN 2013

country for the past 41 years and has not seen its GDP per capita grow above 3.5 per cent since 1972 ...¹⁵ South Africa's situation generally mirrors that of Brazil but is in stark contrast to the development of, for example, the Republic of Korea, which became a high-income economy in 1995 (see Figure 3) after a period of sustained high growth from 1960 to 2001.¹⁶

Like Brazil's, South Africa's average incomes stagnated over three decades – largely as a result of the economic impact of its apartheid policies. Unable to advance political inclusiveness, the country regressed economically. Average levels of income declined and poverty increased. Since the direction of causality typically goes from politics to resource allocation, South Africa's extraordinary mineral endowment became a victim of its extractive politics.

As the apartheid crisis deepened, for the two decades from 1973 to 1993 South Africa generally experienced negative per capita economic growth, to the extent that, by 1993, incomes had declined by 11% – equal to the level in 1970.¹⁷ Capital investment decreased and ever-larger portions of the national budget had to fund recurring expenditure. Infrastructure decayed and efficiencies declined. When it assumed power in 1994, the ANC inherited a country with bare coffers but with high expectations from its majority black support base, who believed that political change would rapidly redress the neglect that they had suffered over generations.

Their expectations were not met. South Africa's economic fortunes changed with the end of financial sanctions and its readmission into the global community. Improved foreign perceptions of the attractiveness of doing business in South Africa translated into significant amounts of foreign financial inflows (at least, by South African standards), amounting to R639 billion between 1994 and 2009.¹⁸ Large segments of the South African economy were opened up to international competition and labour productivity increased from 1995.¹⁹ For the next 15 years, until 2008, the country grew and income levels improved, yet much more slowly than they could have because the country lost out on a decade of the global commodities super cycle as a consequence of policies that focused on redressing the socio-economic imbalance rather than planning for global success. During this period the South African petrochemical and pharmaceutical industry, and others, suffered from an uncertain and volatile policy environment that did not allow new industries to blossom. Facing an unfriendly policy environment, well-established industries, such as auto components, started moving elsewhere.²⁰

The opening up of the South African economy also occurred at the same time that the explosive export-driven growth of China and other countries reached African shores. Not used to

international competition and having decided to remove most of its previous tariff and other protection, South Africa experienced unexpected deindustrialisation compounded by lack of foresight and erratic policies. Measured over time, the relative size of the manufacturing sector shrank from 20% of GDP in 1983 to 16% in 2013. Without support from government and limited investment to overcome key bottlenecks in transport, and lacking the provision of an enabling environment, South African companies found themselves unable to compete with the deluge of cheap imports into the country, often from state-subsidised competitors in China, or to take real advantage of a growing African market.²¹

At the heart of the economic failures lay the inability of government, labour and business to cohere around a common growth vision for the country

Historically, no country has been able to develop without a sizeable manufacturing sector, and the decline in South Africa's industrial base has a knock-on effect in other sectors, including mining, agriculture and services. At the heart of the economic failures lay the inability of government, labour and business to cohere around a common growth vision for the country. This setback was significantly driven by the divisive racial policies first espoused by Thabo Mbeki and accelerated by his successor.

The global recession, which started in 2008, coincided with Jacob Zuma becoming president. He gained that position after a bruising internal mobilisation campaign to oust Mbeki that resulted in a purge of many of its intellectual and experienced cadres, with long-term adverse consequences on the public, mining, industrial and ICT sectors. The battle left deep scars on Africa's oldest liberation party, almost splitting the ANC in two. In policy areas such as HIV/AIDS, the Zuma administration reversed the cruel policies of Mbeki, which had cost thousands of South African lives. But, whereas Mbeki had the tailwind of an expanding global economic environment, Zuma had the opposite. The legacy of poor management and decisions, a number of which pre-date Zuma's election to office, aggravated these challenges. Structurally, the most important relate to education. The education sector has seen several policy reversals and changes, and suffered from poor management for two successive decades, which delayed improvements that should have been associated with the impressive budgets allocated to this sector.

The decision to delay investment in new electricity-generating capacity, despite repeated, consistent warnings from Eskom

since 1998, has proven the most disastrous constraint to growth in the short to medium term. At the time of writing, 17 years after the first warning, the country continues to lack a cohesive energy policy, with the government alternating between the 2010 Integrated Resource Plan and the 2013 update of the Plan (subsequently rejected by the government). Since the end of 2007, South Africa has experienced intermittent load shedding, which, by 2014, had become an ongoing feature of daily life, placing a direct cap on economic growth. Water-supply challenges will also begin to be felt in about a decade should current trends in demand and supply continue.²²

South Africa has also failed to invest in the maintenance and upkeep of key elements of its extensive infrastructure since the mid 1980s, with the result that there are now backlogs in rail infrastructure and other services. Successive projects, such as the introduction of e-tolls, management of key parastatals and efforts to introduce smart metering in Tshwane, have shown breath-taking levels of government inefficiency, wastage and possibly grand corruption.

South Africa also failed to invest in the maintenance and upkeep of key elements of its extensive infrastructure

South Africa is an open economy (international trade constituted 60% of GDP in 2012), and is therefore affected by global events, such as less-than-desirable growth in the Eurozone and, to a lesser extent, the impact of a strong US dollar. Owing to its high reliance on mineral-commodity exports (coal in particular), combined with a heavily reliance on portfolio inflows, South Africa is vulnerable to global demand for its commodities, prices, exchange rates and general global financial conditions. Although the compulsion of market forces has reduced choices, globalisation is still largely managed nationally and like others, the South African government remains in charge of many aspects of economic policy.

Yet, like many other emerging markets, South Africa has little influence over events such as the recent drop in the oil price or issues around a Greek exit from the Eurozone. Nevertheless, many of the country's constraints are self-inflicted. Commentators bewail a situation where export tariffs for unbeneficiated mining products are well below the world average, while port charges are among the highest in the world: 'This means SA's export manufacturers are in effect subsidising existing Transnet port operations, while subsidies are passed on to exporters of primary mineral commodities and importers of

manufactured goods.'²³ Ann Bernstein succinctly sets out the contradictions in migration policy:

There is no shared understanding across government about the positive link between immigrant skills and growth. While the Department of Trade and Industry may 'get it', the Department of Labour sees its role as protecting South Africans from foreign competition by making the process of skilled immigration as onerous as possible and the Department of Home Affairs swings from an obsession with security to positive statements about immigrants without implementation.²⁴

Migration policies therefore penalise skilled workers, and recent amendments to visa requirements deter tourism from emerging countries such as China and India.

So, given these external and self-imposed constraints, what might be a reasonable growth forecast for the long term? This is the subject of the following section's analysis.

Towards Bafana Bafana Redux

Based on his analysis of long-term trends, JP Landman has forecast an average medium-term growth rate for South Africa of 3%,²⁵ which is therefore below the 3.4% average achieved since World War II, but slightly higher than in the 'Nation Divided' scenario and somewhat lower than under 'Bafana Bafana'. Shorter-term forecasts by others appear to coincide. The IMF, for example, expects an average growth rate of 2.8% to 2019.²⁶ In May 2015 the government-owned Industrial Development Corporation updated its real GDP growth forecast rates for the South African economy, which range from 2% in 2016 to 3.2% in 2019.²⁷

The common expectation is therefore that South Africa will achieve only modest GDP growth

The common expectation is therefore that South Africa will achieve only modest GDP growth for several years into the future. This is a view shared by government: in January 2015, newly appointed Finance Minister Nhlamhla Nene delivered what Carol Paton, writing in *Business Day*, termed 'a brutally honest message' to the ANC's internal planning meeting, when Nene acknowledged that, 'in part, the government was responsible for eroding SA's economic growth potential. ... Among reasons offered for the government's shortcomings are: weak regulatory institutions, poor service delivery, governance problems at state-owned companies, extended periods of regulatory uncertainty

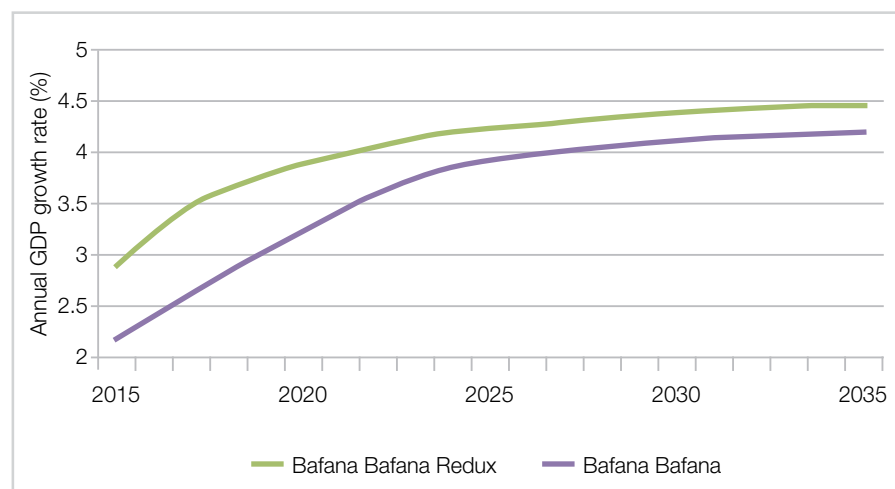
and contradictory policies.²⁸ The most important insight to appear from the leaked version of Nene’s briefing is the view that South Africa is unlikely to achieve more than 2% growth a year before the electricity supply improves – which is several years hence. South Africa can therefore be expected to experience slower growth for several years before there is potential for higher-than-average growth rates. Even regaining the long-term average of 3.4% growth may therefore take some time and require a concerted effort, particularly to alleviate the electricity-supply constraints.²⁹

The impact of South Africa’s electricity shortages has been widely analysed. For example, in March 2015 BusinessTech reported: ‘Power cuts implemented by the state-owned entity cost South Africa’s economy between \$1.7 billion (R20 billion) and \$6.8 billion (R80.1 billion) a month ... meaning stage 3 load shedding wipes almost 2% of the country’s economic weight off the map.’³⁰ In March 2015 the Industrial Development Corporation calculated that the electricity shortages had knocked 0.2% off South Africa’s GDP growth rate in 2014 and that it was responsible for an estimated production loss of close on R17 billion in that year alone.³¹ The impact over the medium and longer term has, however, not been estimated.

Given the medium-term energy constraint, and building on the analysis done for *South African futures 2030*, the likelihood is that South Africa’s pathway to the future currently lies somewhere between the original ‘Bafana Bafana’ and ‘Nation Divided’ scenarios set out in the earlier ISS paper, *South African futures 2030*.³²

Figure 4 presents a forecast of South African GDP growth rates up to 2035 with and without the impact of the electricity crisis, poor policy/planning and government inefficiency. The ‘Bafana Bafana’ forecast is a reasonable forecast of growth given the positive fundamentals of South Africa. In fact, the investment made in education, health and poverty alleviation since 1994 accentuate South Africa’s substantial growth potential. The ‘Bafana Bafana Redux’ scenario takes into account the impact of the electricity crisis, poor policy/planning and implementation challenges. South Africa grows under both scenarios, although not rapid enough to alleviate poverty, reduce inequality and increase employment rates.

Figure 4: Forecast of South African GDP growth rates



Note: The forecast assumes that the electricity shortage will affect multifactor productivity (mfpadd in IFs) and includes updated data from the 2014 mid-year population estimates released by Stats SA (see the annex on page 26).

Source: IFs version 7.09

2%

THE LIKELY ACHIEVABLE
GROWTH PER YEAR
IN SOUTH AFRICA
UNTIL THE ELECTRICITY
SUPPLY IMPROVES

Over the period 2015 to 2035, the 'Bafana Bafana Redux' forecast reflects an average growth rate of 3.6% (3.5% to 2030), which is 0.4% lower than in the 'Bafana Bafana' scenario. Although this may seem a small difference, the power of compound interest is such that by 2035 the South African economy is forecast to be 10% smaller (equivalent to a difference of US\$106 billion or R1 160 bn) than it would have been in 2035 with the lower 'Bafana Bafana Redux' growth trajectory.³³

Since 1994 government policies have not been optimised towards economic growth for two reasons. First is that expenditure to redress the apartheid legacy necessarily detracts from potentially more growth-orientated investments. The second reason is that many of its honourable and justifiable goals have been accompanied by large amounts of wastage, policy experimentation and cronyism.

South Africa is unlikely to escape from its middle-income trap in the near term and will have to learn to do more with less

Since the lack of a dependable electricity supply will have a severe dampening effect on the South African economy for up to a decade, South Africa is unlikely to escape from its middle-income trap in the near term and will have to learn to do more with less, and to manage the contradictions and tensions that accompany slower-than-hoped-for growth. This means dealing with South Africa's hybrid economy, which is characterised by 'both a rising middle-income economy and a low-income one'.³⁴ As the study for the Western Cape government (*Enterprising Cape*) pointed out, this hybrid nature is typical of a middle-income economy with

... heavy reliance on services, a struggling manufacturing centre, and an increasingly mechanised and consolidated agricultural sector. Like other low-income economies, South Africa simultaneously suffers from a high rate of unemployment, an under-skilled workforce, and significant barriers to business, particularly for small and informal business.³⁵

The level of human, social and capital investment still needed by South Africa after the end of apartheid limits the investments available in the country's knowledge base and other sources of improved total multifactor productivity. This had the effect of reducing growth over the last two decades.³⁶ It seems only logical that implementing wealth-redistribution and affirmative-action programmes during the transition from middle to high income will delay this transition, although the investments made in human capital will have a long-term positive impact on growth – a key reason for the robust growth rates forecast to 2035 under all scenarios.

A realistic expectation is therefore that South Africa is likely to grow more slowly than its potential and initially significantly below its historical rate, as well as below the average rate forecast for upper-middle-income countries for several years into the future. This would not be a new phenomenon, however: the country has grown more slowly than other middle-income countries for several decades and after the tailwind of a facilitating global environment turned into a headwind, the additional burden of poor planning, bad management and high levels of social expenditure needed to alleviate the consequences of apartheid have successively reduced the breathing space of the Rainbow Nation. Eventually, the investments in education, health, water, sanitation and the like will raise economic growth rates, evident in the acceleration of growth rates in Figure 4 over time.



MAY 2014 ELECTIONS
SAW THE ANC'S SUPPORT
FALL BY 6% FROM ITS
PREVIOUS LEVEL TO 62.2%

Why nations succeed or fail

Framing the challenge

There are many publications on national success and failure, but perhaps the most useful for the purposes of this paper is the expansive study *Why nations fail*,³⁷ published in 2013. The thesis advanced by Daron Acemoglu and James A Robinson is that those states that manage to steadily advance the level of political inclusivity do significantly better in economic and developmental terms over the long term than states with exclusive systems. Thus:

Countries such as Great Britain and the United States became rich because their citizens overthrew the elites who controlled power and created a society where political rights were much more broadly distributed, where the government was accountable and responsive to citizens, and where the great mass of people could take advantage of economic opportunity.³⁸

The authors distinguish between extractive politics and economics, and inclusive political-economic systems, and provide historical examples of events that led to the one or the other. Extractive politics, they argue, is inevitably based on existing technology and is essentially static, whereas inclusive politics fosters competition, innovation and economic growth.

Other studies have come to similar conclusions, using different approaches, but all taking a longer-term and structural approach to political success and economic prosperity. For example, philosopher Karl Popper in *The Open Society and its Enemies*³⁹ lists the characteristics of long-term prosperous societies as those that embrace freedom, equal justice before the law, reason and critical thinking, and individual responsibility.

Why nations fail is particularly insightful in the linkages made between inclusive politics and economics, and the relationships between the two. Despite brief periods of rapid economic growth after World War II and shortly after independence from the UK in 1961, apartheid South Africa epitomised extractive politics and economics. In other words, government, economics and society were based on the extraction of the maximum benefit for the white population to the detriment of the majority, who were systematically excluded from influence, land and commerce. This view is starkly set out in the *Twenty-year review*, published by the South African Presidency in March 2014, 'Under colonialism and apartheid, black people were oppressed, dispossessed of their land and other means of livelihoods and systematically stripped of their basic human rights, including the right to vote and freedom of movement and association.'⁴⁰

There can be little doubt that South Africa has made much progress since the transition to majority rule. The introduction to

the *Twenty-year review: South Africa 1994–2014* reflects on this progress:

Democracy has brought freedom of movement and of association, the right to own property, freedom of expression and freedom of the press, the equality of women, religious freedom, workplace freedom and the right to strike and protest, all in an attempt to restore the human dignity that was stripped away from us in our colonial and apartheid past. Much has been done to address the systematic violence and land dispossession that was a characteristic feature of the apartheid era. Even more has been done to actively empower previously disadvantaged people through employment equity, affirmative action, and business empowerment.⁴¹

Change is difficult and often painful, however. The level of adjustment that privileged white South Africans have to make, given the legacy of inequality and exploitation that has built up over generations, compounds a deep sense of pessimism in these circles. It is also evident that the discourse of Mandela's inclusive Rainbow Nation has given way to an ANC today that is clearly black nationalist, and no longer pretends or aspires to be a non-racial movement.

The level of adjustment that privileged white South Africans have to make compounds a deep sense of pessimism

Already in 1997, the eminent sociologists Heribert Adam, Frederik Van Zyl Slabbert and Kogila Moodley told the story of 'how post-apartheid South Africa has transformed itself into a liberal democracy and a conventional consumer society. American consumerism has always lurked under the surface of racial restrictions' they write. 'Yet a new elite of black South Africans has now embraced money-making and conspicuous consumption with a zeal that few older capitalist states have experienced.'⁴² The result is white retreat and disaffection, and investor concern – given the financial muscle and business skills of this group. Although there is much evidence of positive change in the distribution patterns of power and wealth, patience seems to be running out with government policies intent on redistribution rather than ones that equally create jobs and growth.

Based on the analysis done in the present study, realising the vision of the NDP 2030 is unlikely. The challenge of moving towards a high-income economy – which would entail investing in a knowledge society – while simultaneously making up for the apartheid legacy constrains South Africa's growth prospects.

A cacophony of contradictory and confusing government policies has intensified these constraints. In this respect, South Africa has largely only itself to blame for growing at level that is below its potential and for the likelihood that it will, unfortunately, continue to grow more slowly than other upper-middle-income countries for several more years. Having said that, growth that is slower than the potential is not a catastrophe.

The following sections discuss the prospects for greater political inclusiveness, which is a prerequisite for greater economic inclusiveness, and for achieving sustained high economic growth rates.

The prospects for greater political inclusiveness

South Africa has made impressive strides since 1990 in developing a robust democratic culture vastly at odds with its previous history. The impact of single-party dominance is, however, starting to have a corrosive effect given the extent of patronage and lack of experience of the ANC.⁴³ Yet, despite this dominance, elections are free and fair, and representative government has been introduced at the local, provincial and national levels. Some of the state's Chapter 9 institutions, such as the Public Protector, have lived up to their mandate in an exemplary manner with the benefit of strong leadership. However, from the start of the Zuma presidency, it was evident that the South African legal and criminal-justice system would be under assault from the governing party as it sought to defend its leader from criminal prosecution arising from his past financially dependent relationship on others. Some institutions have been able to resist, but the criminal-justice system has fared poorly. South Africa still has a robust and free press complemented by an active social commentary. Although a third of South African voters languish under tribal authorities, effectively denying many of their rights, South Africa is a constitutional state with a progressive and strong Bill of Rights.

The May 2014 elections saw the ANC's support fall by 6% from its previous level to 62.2%; the opposition DA increased its support by a third from its previous base to 22.2%; and the EFF captured 6.4% of the votes cast – remarkable for a start-up party. Modest as these changes were in real terms, together they represent the start of a fundamental shift in South Africa's post-liberation politics. This is all the more so if seen in the broader context of the fractures within the ANC's erstwhile most important ally, the labour federation, COSATU, and the loss of influence of its women's and youth leagues. Another sign of that shift was the large drop in voter participation at the 2014 polls (reflecting voter apathy and declining support for the governing party). Those who didn't vote are a potential pool of voters for other political parties to exploit.

Local-government elections are slated for 2016, followed by the election of a new ANC leader (who is likely to be the next president of the country) in 2017. The scene is set for ongoing policy uncertainty, and possibly social turbulence, as South Africa heads to a next round of general elections in 2019, which will most likely see further reductions in electoral support for the ruling party and gains for opposition parties – unless the ANC is able to pull a very large rabbit out of the hat, which is only possible with a comprehensive leadership transition in 2017, well ahead of the 2019 elections.

The modest growth rates forecast in the 'Bafana Bafana Redux' scenario will further eat away at ANC support, to the benefit of the DA, possibly also the EFF – and potentially the new United Front party established by the National Union of Metalworkers of South Africa. The 'Nation Divided' scenario in the previous ISS paper modelled the potential impact of an ANC government that responds to this political threat to its dominance by adopting short-term populist measures, such as land expropriation and greater rigidity in the labour market. Under that scenario, these would result, over time, in higher levels of extreme poverty, a smaller economy and more inequality than would otherwise be the case.

The impact of single-party dominance is starting to have a corrosive effect given the lack of experience of the ANC

A global economic system dominated by the market punishes countries that seek to live beyond their means. Parties that institute policies aimed at redistribution without sufficient investment in growth soon run out of money and options as illustrated in Zimbabwe and Venezuela. The most damaging of these outcomes would be a loss of South Africa's international investor-grade ratings.⁴⁴ An instinctive shift to the populist left may boost ANC support in the short and medium term, but as growth, employment and opportunity then plummet, the ruling party would eventually be pummelled at the polls.

These developments will, however, improve multiparty democracy as voter dissatisfaction with the governing ANC grows on the back of important changes in voting demographics, and reduce the current suffocating impact of single-party dominance on economic growth prospects.⁴⁵

In an ISS Today article titled *The ANC's long-term election prospects*, which was published shortly after the 2014 elections, the author wrote:

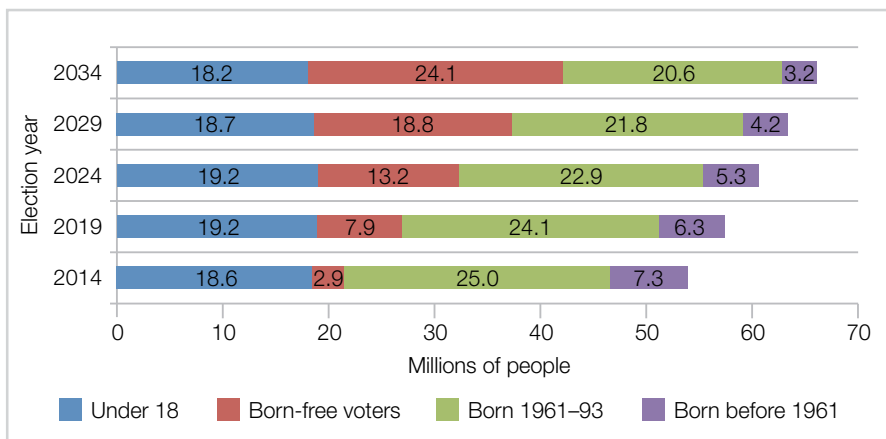
The outcome of the recent elections could see substantial change and potentially important shifts in party-political support, but these may take longer to play out than most would expect. Beyond the country's economic fortunes, key determinants are expected to be the evolution of the young, urban black vote; voter apathy among older voters; the launch of a left-wing political party by the National Union of Metalworkers of South Africa; reform in the ANC (including leadership succession) and the continued momentum of the DA.⁴⁶

The article included a forecast of a steady but slow decline in ANC support at national level from 62% in 2014 to an estimated 50% at the national elections in 2029. Support for the DA was expected to grow from its current 22% to roughly 40% during the same period. Competition to the left of the ANC is more difficult to foresee, but the current trajectory is for the growth of populist parties on that flank.

These forecasts were premised on higher economic growth forecasts than those foreseen in this paper. Lower growth, the divisions within its labour ally and the leadership crisis could accelerate these trends and there is real potential that the ANC could lose its majority during the 2024 national elections – although still remaining the largest party at national level with the DA in firm control of the Gauteng and the Western Cape provinces, collectively the economic heartland of South Africa.⁴⁷

Figure 5 shows the changing size of four age-group cohorts (defined below). It reveals the size of South Africa's population age groups at the time of national elections starting in 2014 (the year of the most recent elections), and for those scheduled for 2019, 2024, 2029 and 2034.⁴⁸

Figure 5: South Africa's population by voter age group during national-election years



Source: Author's calculations based on IFs 7.09

The four cohorts shown are, firstly, those born during the Union of South Africa through to 1961 (the year that marked the end of the union and the triumph of Afrikaner nationalism); secondly, the period of the black nationalist struggle (1962–1993); thirdly, the cohort of South Africans born in 1994 and thereafter who are old enough to vote; and, finally, those below the age of 18, (i.e. not old enough to vote in the 2014, 2019, 2029 or 2034 elections).

The so-called born-free voters are generally expected to exhibit different voting behaviour from that of their parents. Whereas, in 2014, only three million born-frees

ANC SUPPORT AT NATIONAL LEVEL WAS FORECAST TO DECLINE FROM

62%

IN 2014 TO AN ESTIMATED

50%

IN 2029

were of voting age, by the time of the 2019 elections this number will have increased to 7.9 million and this cohort increases with each election thereafter. By 2029 the number of voters in the born-free cohort is only slightly less than the total in the other two voting cohorts. And by 2034 the number of born-free voters outnumbers the combined total of the other voting cohorts. The impact of this large increase in the number of born-free voters will therefore already be felt in the 2019 national elections and the impact will increase with each subsequent election.

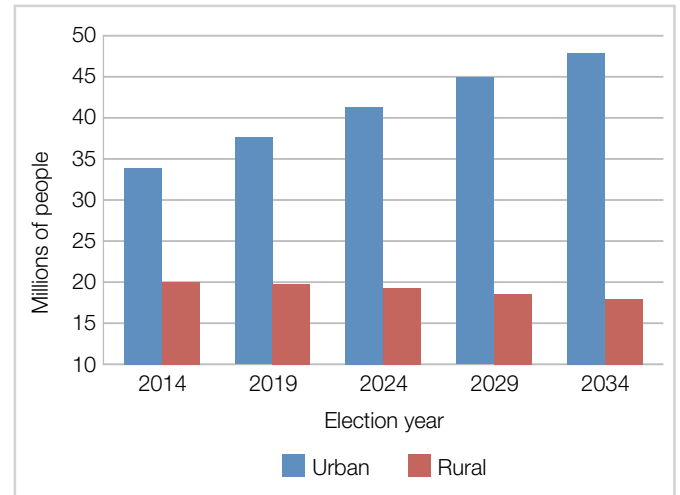
Pundits generally agree that the majority of South Africans vote for the ANC on the basis of its liberation credentials – in other words, theirs is a vote of solidarity in recognition of the party's remarkable legacy in having played a key role in unshackling South Africa from apartheid. As the number of born-free voters increases with each election, however, the memory and experience of apartheid, and the role of the ANC in South Africa's freedom struggle, will diminish. Instead, the demand for effective implementation and policies that deliver jobs, education and services is likely to increase. Born-free voters are also expected to be more willing to switch parties than older voters, increasing volatility in voting behaviour.

Looking ahead, the rural-urban divide will feature strongly in South African politics

Education and urbanisation are two other factors that will have a political impact. The effect of apartheid policies, which sought to keep black South Africans hemmed into rural homelands, exerted downward pressure on the normal urbanisation process until the relaxation of pass-control measures in the 1980s, after which urbanisation rates began to increase. During the first democratic elections in 1994, slightly more than 51% of South Africans were living in urban areas, a figure that had increased to 63% by the 2014 elections. By 2035 up to 74% of South Africans are expected to live in urban areas. The result is that parties that appeal to a rural support base, espouse traditional values and emphasise social conservative practices may struggle to remain relevant in an increasingly urban-orientated, connected and consumer-based culture.

Under the socially conservative leadership of Jacob Zuma, the ANC is clearly strengthening its rural support base. In the run-up to local government elections in 2016, the salaries of traditional leaders were increased by 28.4% in mid-2015 as the party prepared to challenge the Inkatha Freedom Party in its remaining stronghold in deep rural KwaZulu-Natal, and

Figure 6: Urban vs rural population, in millions



Source for Figure 6: IFs 7.09

bolster its traditional Xhosa support base in the Eastern Cape.⁴⁹ Looking ahead, the rural-urban divide will feature strongly in South African politics.

Current trends would also see the level of education steadily increasing – another factor that might work against parties that rely on family socialisation for continued voter support. Other things being equal, voters with higher levels of education should be expected to be more critical of a government that fails to improve the livelihoods of its citizens in accordance with its policy programmes and promises. Using International Futures (IFs), it is forecast that the average length of education at 15 years of age will have increased from 8.6 years during the 2014 elections to almost 10 years at the time of the national elections in 2034.

Although it is possible that a reinvigorated ANC may sustain its current high levels of popular support (and this possibility was developed as one of the alternative paths under the 'Mandela Magic' scenario in the previous paper), it is unlikely to be the case if the current trend of public dissatisfaction and perception of corruption and nepotism among top political leaders remains. In response, the ANC has already embarked upon far-reaching efforts to draw support from traditional leadership through successive efforts to introduce and re-introduce the Traditional Courts Bill, which will bolster the authority of traditional leaders and enact large salary increases for headmen across the country.⁵⁰

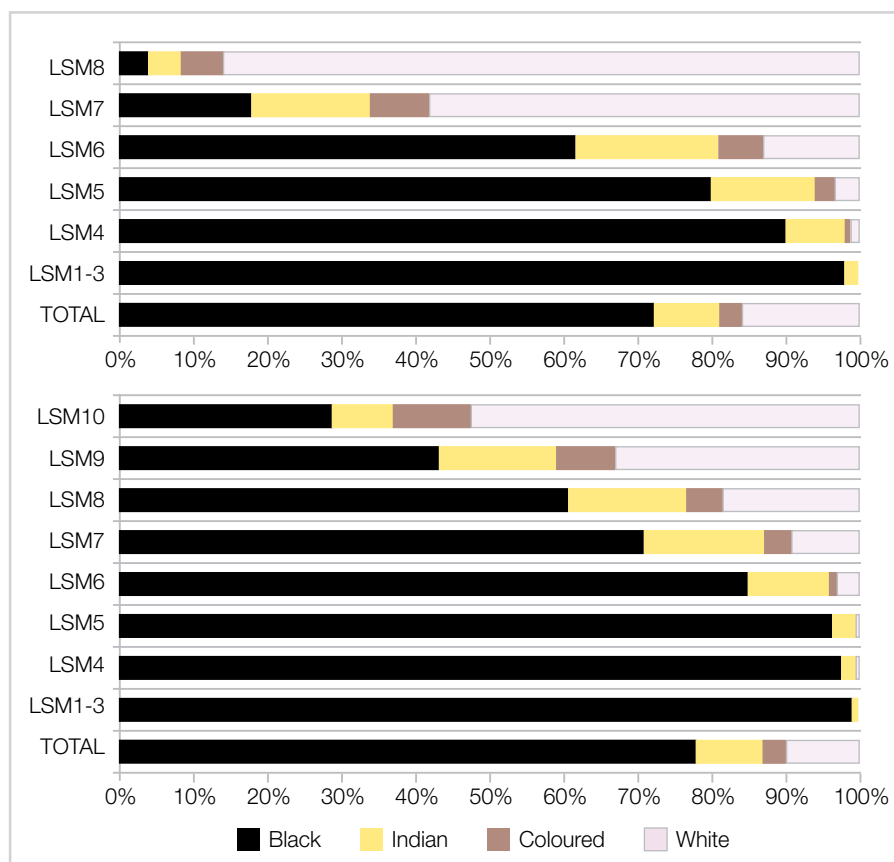
Ironically – because it is partly driven by poor economic performance – the prospects for steady, significant advances in multiparty competition, and greater political choice and competition are a source for cautious optimism. Increased political inclusiveness should have a positive impact on the prospects for greater economic inclusiveness.

The prospects for greater economic inclusiveness

Although incomplete, South Africa's transition to greater economic inclusiveness is already comprehensive and making steady progress. But these changes take time and it is evident that many poor South Africans and well-connected individuals alike are becoming impatient.

Government programmes to support the transfer of wealth to black South Africans and to help the previously disadvantaged are arguably the largest and most comprehensive of their sort worldwide. Besides social grants (referred to elsewhere in this paper and designed to alleviate extreme poverty), successive efforts at what is now known as broad-based black economic empowerment (B-BBEE) and extensive employment of previously disadvantaged South Africans in the civil service have led to increases in the proportion of the black segment of the top Living Standards Measure (LSM) from 4% in 1994 to 29% by 2014.⁵¹ The proportion of white people in the equivalent measure has decreased from 84% to 53% in the same period. Even more striking is how the middle class is changing, which is reflected in the comparison of LSMs between 1994 and 2014 (see Figure 7).⁵² The impact of investments in education takes almost a generation to realise, but there can be little doubt that South Africa will in time reap the benefits of the investments in black education made since 1994, even despite the wastage and inefficiencies that accompanied the roll-out of education for all of the country's citizens.

Figure 7: Comparison between LSMs in 1994 and 2014



Note: In 1997 LSM7 and 8 were subdivided into what is now known as LSM7, 8, and LSM9, 10, respectively, to provide greater top-end differentiations.

Source: www.saarf.co.za/LSM/lsm.asp and http://xtract.eighty20.co.za/index_i.cgi?t=landing, accessed 23 March 2015



SOUTH AFRICA'S TRANSITION TO GREATER ECONOMIC INCLUSIVENESS IS MAKING STEADY PROGRESS, BUT THESE CHANGES TAKE TIME AND SOUTH AFRICANS OF ALL CLASSES ARE BECOMING IMPATIENT

It is evident that steady progress has already been achieved in income redistribution to establish greater parity between the race groups, although a long road still lies ahead. Income is not the same as wealth, however, since wealth is created cumulatively from income and inheritance and the like over time. The current debate has therefore increasingly become focused on the distribution of wealth between race groups, including ownership of land, such as farms. One example of the wealth-redistribution debate is the attention given to how much of the market capitalisation on the Johannesburg Stock Exchange is owned by black people – with figures ranging between 3% and 23% ownership of the top 100 companies. This is a complex subject, since more than 90% of shares are owned by institutions rather than by natural persons. It is realistic to assume that the vast proportion of wealth is vested in institutions that still largely benefit the white population, such as pension benefits paid out to (mostly white) retired civil servants. As other population groups contribute to pension funds, for example, the benefits that accrue to them will naturally reach a tipping point after which a rapid transfer of assets to the black segment of the population will occur.⁵³

Changing the distribution patterns in society takes time, but with the investments made by the South African government in education, preferential procurement and other areas since 1994, the country is set on an inevitable path of massive transfers of wealth to its black majority. Unfortunately, it appears that this transfer is often limited to well-connected individuals and a limited number of families. Insufficient attention is being paid to the challenge of opportunity creation in an open economy, which would allow for the greater distribution of wealth within the broader community.

It is evident that steady progress has already been achieved in income redistribution to establish greater parity between the race groups, although a long road still lies ahead

At the same time, a more open economy would need to look at the excessive remuneration and bonuses of South Africa's chief executives in the private and to a lesser extent, in the public sector. According to Jannie Rossouw, writing in the *Mail & Guardian*, the differential between the highest paid and the lowest paid among the 20 worst offenders on the Johannesburg Stock Exchange ranges from 95 to 725. While the average annual pay of the lowest paid worker in 2013 was R70 200, that of the chief executives was R3.758 million – or a differential of 54.⁵⁴ Under these conditions it little wonder that annual wage negotiations in the mining sector, amongst others, rapidly degenerate into acrimony and often violence.

Towards 'Mandela Magic Lite'

The previous sections have argued that there are positive prospects for improvements in political inclusiveness and, as a result, economic inclusiveness in South Africa. This section models a reasonable forecast of what such improvements might entail in a scenario called 'Mandela Magic Lite'. The Acemoğlu book *Why nations fail* argues that political inclusiveness precedes economic inclusiveness and growth, so this scenario is dependent on the development of a social consensus in support of growth that cuts across race and the public/private sectors.



TRANSFERS OF WEALTH IS OFTEN LIMITED TO WELL-CONNECTED INDIVIDUALS

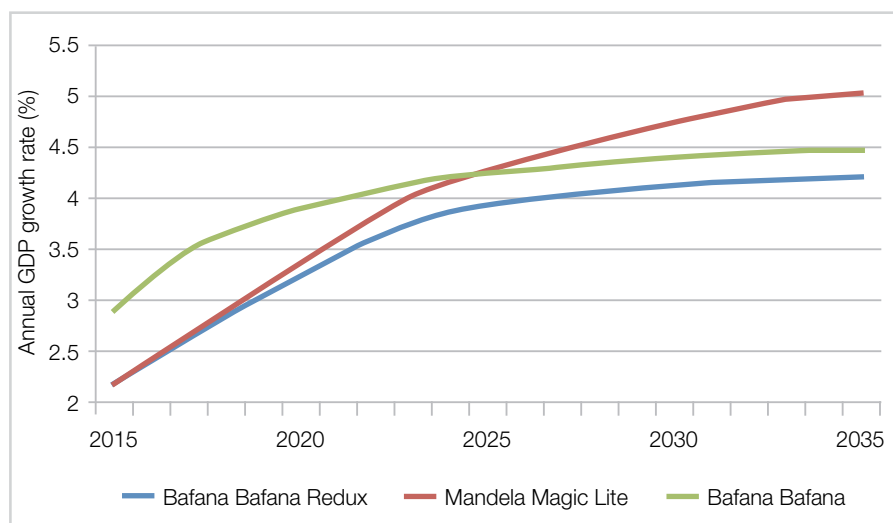
Despite the constraints set out in this paper, there is much that South Africa can do to improve upon its current prospects, given a more facilitating political and social environment. The current ‘Bafana Bafana Redux’ trajectory could become more positive – although it is unlikely that South Africa could achieve the prosperous ‘Mandela Magic’ scenario that was mapped out in the 2014 ISS paper *South African futures 2030*. Without a near revolution in policy coherence and government efficiency, there is little chance of average GDP growth levels reaching 5% over the medium to long term, or for the dramatic reductions in poverty and the increase in South Africa’s human-development indicators that were set out under that scenario.

Despite the constraints set out in this paper, there is much that South Africa can do to improve upon its current prospects, given a more facilitating political and social environment

The interventions modelled as part of ‘Mandela Magic Lite’ are listed in an annexure. These consist of improvements in various aspects of governance; more investment in infrastructure; more spending on research and development, broadband and access to ICT; reductions in levels of crime and violence; reductions in death rates from AIDS and infection rates from HIV; improvements in nutrition; improvements in education outcomes across all levels; improvements in access to safe water and better sanitation; and increases in social grants. The scales of these interventions are all relatively modest and achievable but they will not be realised without clear vision and strong leadership in each area.

Figure 8 is a forecast of the annual GDP growth rates associated with each scenario. By 2035 the ‘Mandela Magic Lite’ version of the South African economy is expected to be US\$71 billion (R774 billion) larger than would be the case with the ‘Bafana Bafana Redux’. South Africa would therefore be able to claw back some of the losses induced by the electricity crisis and policy incoherence (the latter trajectory is presented as the ‘Bafana Bafana’ scenario).

Figure 8: GDP growth rate (five-year moving average)



Source: IFs 7.09

WITHOUT A NEAR
REVOLUTION IN POLICY
COHERENCE AND
GOVERNMENT EFFICIENCY,
THERE IS LITTLE CHANCE
OF AVERAGE GDP GROWTH
LEVELS REACHING

5%

OVER THE MEDIUM
TO LONG TERM

'Mandela Magic Lite' would lift average growth rates substantially over the forecast period. Instead of an average growth rate of 3.6%, forecast under the 'Bafana Bafana Redux' scenario, South Africa could grow at an average rate of 4% from 2015 to 2035. The 'Mandela Magic Lite' scenario would produce an economy of US\$1 019 billion (R11 100 billion) by 2035, or US\$71 billion (R774 billion) larger than the forecast for 'Bafana Bafana Redux'.⁵⁵ Thus, the 0.4% difference in the growth rate results in a 7% larger economy by 2035.

The reason for these robust growth rates (by historical standards) can largely be ascribed to the higher population forecasts generated for this paper, premised on relatively stable (but declining) rates of inward migration, lower rates of infant mortality and higher average life expectancy in line with the most recent population updates (for mid 2014) published by Stats SA. A larger population generally translates into a larger economy and, in this instance, to faster economic growth, although not necessarily into higher levels of average income per person because the larger cake is also shared among more people.

Collectively, the improvements modelled under 'Mandela Magic Lite' point to South Africa achieving high-income status earlier, improvements in the composite Human Development Index (HDI) and slightly reduced inequality (as measured using the Gini coefficient).

Collectively, the improvements modelled under 'Mandela Magic Lite' point to South Africa achieving high-income status earlier

The HDI is a composite index of life expectancy, education and income indices used to categorise countries into four tiers of human development – very high, high, medium and low. South Africa is globally ranked 27th in terms of GDP per capita, placing it in the upper-middle-income category. But it was ranked as low as 118th on the HDI (placing the country in the medium level of human development), with a score of 0.658 in 2013, the most recent year that the UN Development Programme, which produces the HDI, released global data.

The 'Mandela Magic Lite' interventions would have a significant positive impact on HDI (see Figure 9). By 2035 South Africa could improve its HDI rating by 0.107 (as opposed to an improvement of 0.094 under 'Bafana Bafana Redux').⁵⁶ Even with those improvements, however, the large mismatch between purported average levels of income and human development show the duality of South African society, politics and the economy.⁵⁷

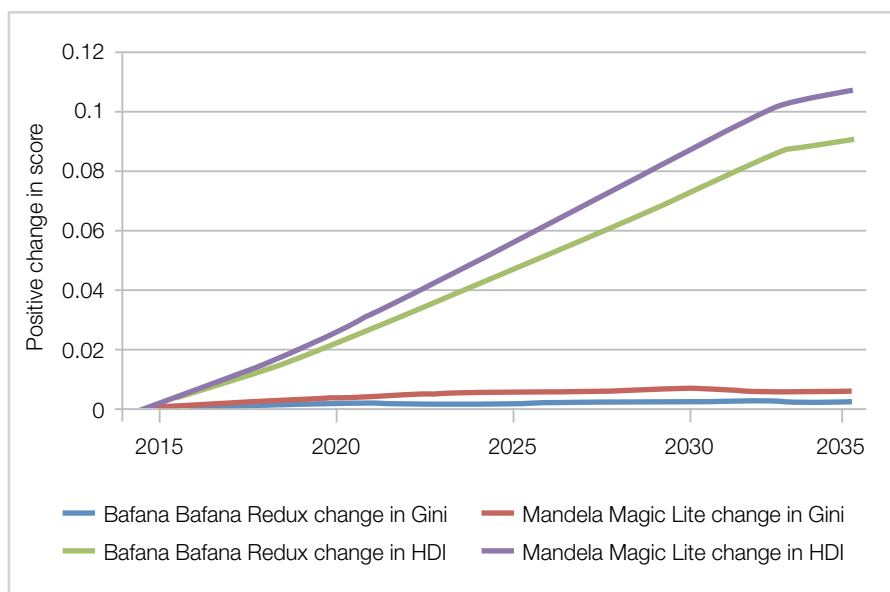
The interventions modelled as part of 'Mandela Magic Lite' hardly shift income distribution or inequality, as measured by the Gini coefficient. By 2035 the 'Mandela Magic Lite' forecast is that South Africa would improve its Gini rating by a marginal 0.003 points compared with the progress under 'Bafana Bafana Lite'. This improvement is insufficient to halt a generally deteriorating global ranking in income distribution.

Since South Africa already has a large programme to provide social grants to poor people, a significant reason for the lack of improvement in income distribution could lie with the country's high levels of unemployment – which is the focus of the next section.



THE OFFICIAL
UNEMPLOYMENT RATE
WAS 22.5% IN 2008

Figure 9: Positive change in Gini and HDI



Note: An increase in the Gini coefficient is an increase in inequality, whereas an increase in HDI means improvements in human-development terms. In this graph the direction of Gini has been inverted, so the graph shows positive changes in both Gini and HDI for 'Mandela Magic Lite' and 'Bafana Bafana Redux'. The improvement in Gini is marginal, however.

Source: IFs 7.09 and author calculations

Implications

Unemployment

This section forecasts employment trends based on the GDP growth forecast for 'Bafana Bafana Redux' and 'Mandela Magic Lite' to provide the likely extent of South Africa's unemployment problem over the next 20 years.

An earlier section set out a forecast for South Africa's population growth through to 2035, noting the associated steady reduction in the dependency ratio. Thus South Africa's working-age population group (15 to 64 years of age) is growing at a slightly faster rate than its total annual population, increasing from 35.5 million in 2015 to 45.8 million by 2035 (while the total population increases from 54.7 million to 67.3 million during this period).

South Africa created 4.3 million jobs in the period 1995 to 2008 – an average of 330 000 jobs per year.⁵⁸ According to the National Planning Commission, jobs in the South Africa economy grew at 0.6% to 0.7% per annum for every 1% of economic growth per annum, although the exact rate fluctuates widely from quarter to quarter and year to year.⁵⁹ For the three years since 2010, the coefficient has been lower, at 0.55%, which is closer to the long-term coefficient experienced since World War II. In an effort to soak up some of the unemployed, government has recently sought to increase labour absorption rates, particularly by boosting public-sector employment and through various measures, such as the Expanded Public Works Programme, to 'provide poverty and income relief through temporary work for the unemployed to carry out socially useful activities'.⁶⁰

According to Stats SA, 'in 2014, as many as 1.5 million of the 5.1 million unemployed people were looking for a job for more than 5 years, up from 974 000 in 2008'.⁶¹

1.5 MILLION

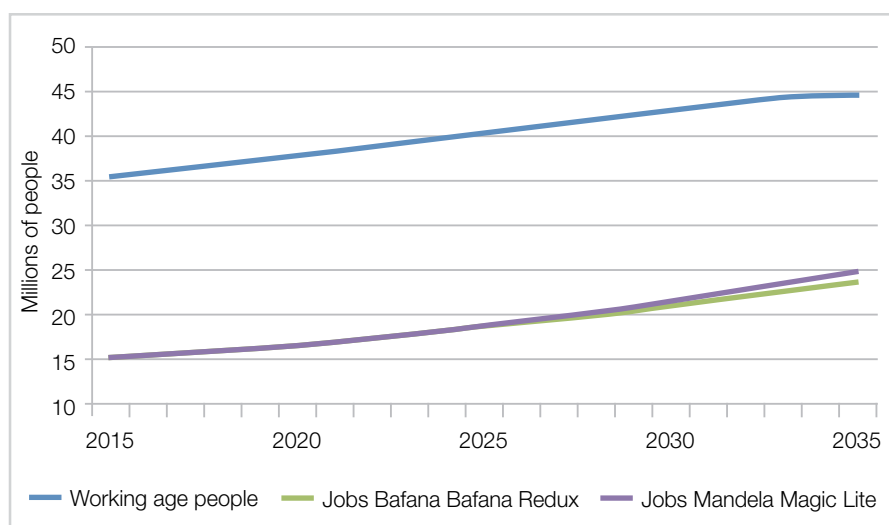
IN 2014, THE NUMBER OF UNEMPLOYED PEOPLE (FROM A TOTAL OF 5.1 MILLION) WHO WERE LOOKING FOR A JOB FOR MORE THAN 5 YEARS, UP FROM 974 000 IN 2008

Stats SA uses two unemployment rates: an official and an expanded rate. The latter includes people who have given up searching for employment. The official rate was 22.5% in 2008 and the expanded rate 29.7%. Both had deteriorated in 2014 to 25.1% and 35.3%, respectively. Unemployment has grown every year since 2008, when the global financial recession hit South Africa and Jacob Zuma became president. South Africa's very low employment ratio suggests that comparatively few people, particularly those in the lower-income categories, rely on wages as the main source of income. Social grants therefore play an important role as the source of income for these households. As the *Twenty-year review* puts it: 'More than half of all households in the former homelands depend mostly on remittances or grants, compared with under a quarter in the rest of the country.'⁶² Despite its status as an upper-middle-income country, South Africa has a large poverty burden. The prognosis for improvements in South Africa's employment rate is not good, partly because of the uneven distribution of skills in the labour force and poor outcomes from an education system that is not delivering on the demands of the economy. In addition, government policies and poor labour relations have, in recent years, reduced employment intensity in the private sector.


According to Stats SA, out of a total population of 54 million people in 2014, of whom 35 million were of working age (15 to 64), an average of 15.15 million people were employed; 4.195 million people were unemployed (official rate); and 15.2 million people were not economically active, including those unemployed who had given up seeking work, or so-called discouraged job-seekers.⁶³ Using IFs, the size of the South African potential labour force (persons aged 15 to 64) is expected to increase from 35.5 million in 2015 to 44.7 million by 2035. Not all these people are, of course, active job-seekers, since some are still at school, for example.

Given the small differentials between the various growth rates modelled for each of the scenarios, the increases in employment forecasts do not differ much between 'Bafana Bafana Redux' and 'Mandela Magic Lite' to 2035. Therefore, by 2035 the number of employed South Africans would have increased from the 15.15 million in 2014 to either 23.8 or 24.9 million. These calculations assume that the economy creates jobs at a rate of 0.6% for every 1% of GDP growth. As is shown in Figure 10, these improvements will have very little impact on the number of South Africans without work, despite the fact that the economy would have created more than 8.6 million jobs over this period.⁶⁴

Figure 10: Number of working-age people (15 to 64 years of age) versus jobs



Sources: 2014 base – Stats SA; increase – IFs 7.09



UNEMPLOYMENT HAS GROWN EVERY YEAR SINCE 2008

In fact, under current conditions the number of unemployed is set to increase for at least a decade before starting to fall. This is because the size of the South African labour force is increasing (see Figure 1), while the economy is expected to grow slowly for the next several years. As growth accelerates over time, job creation intensifies. Yet only after 15 years is South Africa able to recover the employment losses as a result of the electricity crisis modelled in this paper, vividly demonstrating the impact of lack of foresight and poor planning.

None of these rates of improvement in employment levels have a significant impact on unemployment (hence the use of the term 'structural unemployment' to describe the South African situation). This underlines why South Africa has to aspire to much more rapid rates of economic growth if it wishes to reduce unemployment – one of the main reasons why the NDP originally set such a high bar of 5.4% average growth.

Under current conditions the unemployment rate is set to increase for at least a decade before starting to fall

In summary, given the impact on growth of the electricity crisis and detrimental government policies, high levels of unemployment are likely to remain a characteristic feature of South Africa's economy with all the attendant effects – political, economic and social – for the foreseeable future, in fact substantially beyond the time horizon used in this paper.⁶⁵

The implication of this forecast provides serious food for thought. Rather than improving employment intensity, adversarial labour relations and policies, such as those surrounding labour brokers, have reduced labour absorption rates. Without a comprehensive review of labour relations, government (and the private sector) will have to maintain and expand the current efforts at short-term employment creation, such as the Expanded Public Works Programme. Community work programmes, low-paid public-work projects and the like will have to be rolled out. Government will also not be able to trim back on its extensive (and successful) social-grants programme. More than 16 million South Africans (about a third of the population) benefit from social grants – a number expected to increase by an additional one million in the short term. Social grants have reduced extreme poverty, income inequality and hunger for many. But grants are not jobs and although they alleviate extreme poverty, only employment can positively transform adult lives in the long term. And the impact of unemployment is to reinforce the extent to which South Africa

is currently stuck in its middle-income trap. Every rand spent on social grants is a rand not spent on infrastructure, high-end skills and knowledge creation.

There is, however, another side to this picture that is insufficiently recognised. Although high levels of unemployment will have continued negative consequences, the increase in employment levels from 15.1 million people in 2015 to a forecast of more than 25 million by 2035 will have a positive impact on tax revenues, the size of the economy and social stability. Every new job is one more consumer and one more taxpayer, and as the number of employed people rises, the ratio of unemployed to employed people improves (i.e. although it is expected there will still be a high number of unemployed people in South Africa, they would form a smaller proportion of the total). Thus, in 2014, around 43% of the working-age group in South Africa was employed. Even given the negative impact of the electricity crisis on growth and employment, by 2035, 56% of the working-age population in South Africa could be working in the benign 'Mandela Magic Lite' scenario. In summary, while structural unemployment is expected to remain a heavy social, economic and political burden on South Africa it is one that steadily decreases over time to the point that, by 2035, an additional 13% of the labour force could be employed. This will only occur, however, with a concerted effort by government, labour and the private sector to implement the improvements set out earlier as part of the 'Mandela Magic Lite' scenario. More than any other measure, increased employment will improve human development and reduce inequality.

In addition, the quality and size of the public sector would need to be addressed on the basis of the degree to which it has become a drag on productive expenditure. The government's current wage bill is R400 billion and this figure is projected to grow to R430 billion in the 2015/16 financial year – about 35.5% of the total government budget.⁶⁶ This spending is not reflected in the quality of services provided. According to the World Economic Forum 2014–2015 *Global competitiveness report*, South Africa's overall ranking in this domain is 56th out of the 144 countries included in the report. Yet the country ranked badly, 132 out of 144, on the quality of healthcare and education, and primary education only came in at number 133, close to the bottom of the field.⁶⁷ In fact, the slow rate at which the well-remunerated South African civil service creeps on is a sure impediment to growth and points to potential efficiency gains in a sector that serves as a suffocating blanket over large parts of the economy.

Poverty⁶⁸

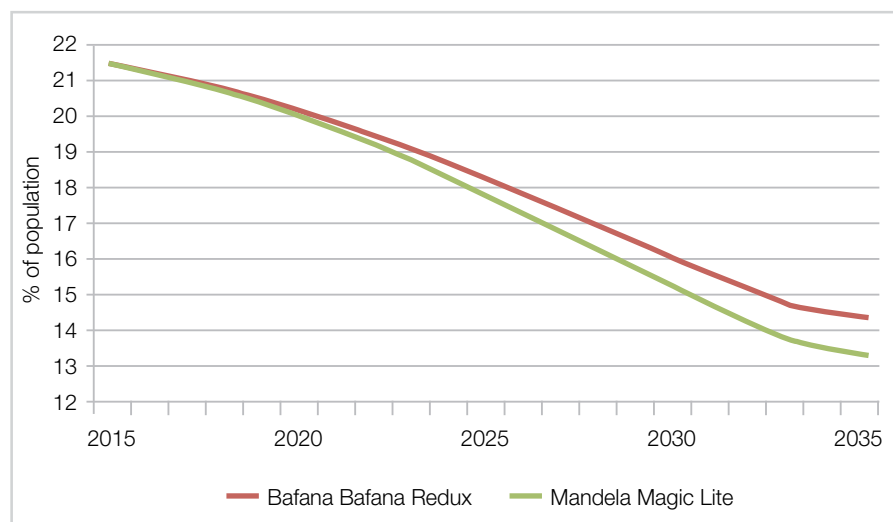
Stats SA calculates three poverty lines for South Africa – the food poverty line, the lower bound poverty line and the upper

bound poverty line. The food poverty line (now set at R11.17 a day in 2011 prices) is the rand value below which individuals are unable to purchase or consume food for an adequate diet (providing around 2 100 kilocalories a day).⁶⁹

To deal with the pervasive levels of poverty that it inherited from apartheid, the South African government has rolled out an expansive system of social assistance with the number of beneficiaries increasing from 2.7 million in 1994 to 16 million by 2013. This number includes 11.3 million beneficiaries of the child-support grant alone.⁷⁰ Despite this huge programme, Stats SA finds that the numbers of South Africans in extreme poverty in 2011 (the year that the most recent Income and Expenditure Survey was completed) was still 21.7% of the total population, or 10.9 million people, reflecting the depth and persistent nature of poverty in South Africa.⁷¹

The forecast prepared for this paper indicates that the absolute number of extremely poor people in South Africa (i.e. those living on less than R11.17 per person per day in 2011 prices) will remain constant for some years before diminishing moderately through to 2035. However, viewed as a proportion of the total South African population, the IFs forecast presents a positive picture with a declining percentage of South Africans living in these most debilitating of circumstances (see Figure 11).

Figure 11: Percentage of South Africans living in extreme poverty (less than R11.17 per person per day – 2011 rands): ‘Bafana Bafana Redux’ and ‘Mandela Magic Lite’



Source: IFs 7.09 and author's calculations

By 2035 only around 14% of South Africa's total population would still be classified as extremely poor under the 'Bafana Bafana Redux' scenario. This is still a relatively high figure for such a wealthy country yet one that presents a huge improvement since 1994. In the more positive 'Mandela Magic Lite' forecast, the figure decreases by one percent. Under 'Mandela Magic Lite' the number of South Africans living in extreme poverty falls by an estimated 2.9 million from 2015 to 2035. Rapid reductions in poverty in South Africa are constrained by the high levels of inequality, since very little income trickles down to those at the bottom of the income pyramid. Although the expansive system of social grants has had a remarkable impact on levels of extreme poverty over the last 20 years, the alleviation of extreme poverty in South Africa in the future will largely depend on the ability of the economy to provide jobs.

21.7%

THE PERCENTAGE OF SOUTH AFRICANS IN EXTREME POVERTY IN 2011

Conclusion

Why nations fail is a useful lens to explore the progress and long-term prospects of South Africa. It links inclusive politics with inclusive economics, and explores their relationship with long-term prosperity. Political change, the authors argue, precedes economic change and, without the former, progress towards a more sustainable and prosperous future is unlikely:

Despite the vicious circle, extractive institutions [like South Africa pre-1994] can be replaced by inclusive ones. But it is neither automatic nor easy. A confluence of factors, in particular a critical juncture coupled with a broad coalition of those pushing for reform or other propitious existing institutions, is often necessary for a nation to make strides towards more inclusive institutions. In addition some luck is key, because history always unfolds in a contingent way.⁷²

South Africa has indeed been very lucky. The crisis that engulfed the apartheid extractive system during the 1980s coincided with global ideological shifts and key domestic leadership changes (such as the administrative change from PW Botha to FW de Klerk). These changes made the unthinkable possible. The miracle birth of the Rainbow Nation changed the course of a country headed for civil war. It bent the curve and opened a pathway towards inclusive political and economic systems and institutions. The key ingredient was the comprehensive settlement process that was negotiated over four agonising years from 1990, culminating in national elections of 27 April 1994 and the Mandela presidency.

After the miracle comes the hard work of running a sophisticated and diverse country. Many see the transition as a triumph of good over evil. But South Africa's dismal past and escape from disaster does not itself guarantee a bright future. 'Hyperbole and moral repugnance aside, it is not difficult to end up in a position of sanctimonious paralysis, of believing that the future guarantees one a good deal because the past has given a bad one and to approach the complex problems of transition with an attitude of moral entitlement.'⁷³ And this is proving a hard task for a relatively small liberation party that was unbanned in 1990, assumed power in 1994, and now suffers from debilitating internal conflict, lack of capacity and factionalism.

Today, the ANC government has many well-developed, if sometimes overlapping and contradictory, policy frameworks. Economic policy is seemingly at odds with industrial policy and both are undercut by restrictions on skilled immigrants, to give one of many examples. Hence, the party speaks left, walks right and sometimes trips over itself in its stop-start catalogue of changing policies, reflected in the composition of a large cabinet with overlapping mandates and lack of cohesion. Ministers regularly contradict one another on the intent with various

policies and decisions, and it is unclear which department is responsible for the coordination of specific services, such as the stability and design of the electricity grid or digital policies and standards. Rather than long-term planning, the emphasis seems to be on crisis management and the lack of coordination has debilitating consequences for domestic and international investor confidence.

While the NDP refers to building the capability of the state to play a developmental, transformative role, government regulations and inefficiency have put a damper on the economy. Like the times of the poor-white problem in the early part of the previous century,⁷⁴ the main function of the state is now to soak up unemployment thereby increasing recurring rather than capital expenditure.

The South African economy needs to create jobs, which can only happen if the economy grows much more rapidly than at present

More than anything else, the South African economy needs to create jobs – something that can only happen if the economy grows much more rapidly than currently and if efforts are made to improve employment intensity. The latter requires that the high barriers to entry into the labour market need to be relaxed – a difficult task for a governing party in alliance with COSATU. In effect, a highly political labour movement serves to protect those in employment but at the cost of growing employment more broadly. Recent years have seen an expansion of employment in the public sector to an extent where the associated wage bill is squeezing out capital investment in infrastructure. Meanwhile the private sector, which accounts for 80% of production and employment, has largely lost confidence and does not invest domestically despite their large, positive balance sheets. Efforts to improve employment in the longer term will succeed only if South Africa manages to consistently grow the private sector over successive decades.⁷⁵ Growth in the private sector requires business confidence and a facilitating investment climate. The potential for such investment was recently illustrated with the successive rounds of private sector investment in the renewable energy sector that had been forced upon a reluctant government by its previous delays before belatedly investing in electricity supply.

At the same time, levels of inequality and past levels of so-called 'poverty wages' demand the introduction of a reasonable national minimum wage, as well as the means to restrict the excessive rewards that accrue to top management in both the

public and private sectors. The large differentials in remuneration between workers and executives in South Africa breeds resentment, undermines the potential for social compacts and are excessive even by international comparative standards. In the run-up to the August 2012 massacre of mineworkers near Lonmin's Marikana platinum mine by the South African Police Service, a Lonmin rock-drill operator received a gross income of R8 124 per month with a take-home pay of R5 600 or R64 800 per annum. At that time, the chief executive officer earned 236 times – or R15.3 million – more.⁷⁶ At this extreme level of inequality 'those at the bottom do not feel that they have a stake in society and start pursuing their economic objectives outside of the mainstream.'⁷⁷

The ISS paper *South African futures 2030* concluded by listing seven strategic interventions to set South Africa on a more inclusive and prosperous pathway.⁷⁸ In accordance with the logic encapsulated in *Why nations fail*, these started with the overarching need for political reform to bolster accountability. It called for the implementation of the Van Zyl Slabbert Commission's recommendations to do away with the current proportional-representation system and move towards a mixed-member proportional system where 75% of legislative representatives would be elected from 69 multi-member constituencies.⁷⁹ In the subsequent outreach programme the ISS also advocated for the introduction of a system of mandatory voting during elections. Neither is possible without a government committed to an inclusive multi-racial vision, as opposed to black nationalism, and a forward-looking leadership ethos. Such a development requires a shift in ANC ideology towards a class-based rather than a race-based analysis of the South African situation where it champions the cause of all poor and unemployed people (the vast majority of whom are black), and the advancement of investment and entrepreneurship of all South Africans, while maintaining key interventions to assist the previously disadvantaged groupings.

South Africa does not necessarily face a crisis. High levels of crime, unemployment and inequality have been characteristic of South African society for decades, and the analysis presented here would indicate that they are likely to remain characteristic of the country for decades to come. Steady growth at the mediocre (but accelerating) rates forecast in this paper will improve human development and eventually ease the pressures on South African politics, society and the economy. But the global environment is volatile and, much like countries such as Argentina, Peru, Zambia and India (not to mention Zimbabwe), uneven and choppy growth is more likely. Despite its probable general upward trend, choppy growth may not significantly reduce pressure on politics and the economy.

There is also potential good news, but it will take time in coming. South Africa is in the midst of a generational change in society. This generational transition is key to the future of South Africa, particularly if the country is to graduate from its obsession with race as the marker of good and evil. Already the high levels of integration in the education system and broader society bode well for a future where the demon of race has partly been put to rest. As those who suffered the hurt and direct experience of apartheid become less influential, the bitterness and racism that they bring to politics will dissipate, as will the resistance from those sections hankering back to a past where (white) suburbs were largely crime-free and poverty was legislated out of sight. The ratio of employed to unemployed will improve (although slowly) and South Africa is well situated in southern Africa, a global high-growth region.

The greatest threat to South Africa is undoubtedly an ANC leadership that responds to populist politics in kind

South Africa still has a large youth bulge (generally defined as those aged 15 to 29), although it is much smaller than in other countries in the region. The size of this bulge is expected to decline from a current level of around 40% of the total adult population to 32% by 2035, and this will exert downward pressure on crime and violence.⁸⁰ With a median age of 33 years by 2035, South Africa would have moved out of the youth 'danger zone' with a steadily declining youthful population and most likely more stability. In addition, despite huge public-sector wastage, truly extraordinary levels of effort and resources have been invested in changing education, income and opportunity – all of which will lead to sweeping changes in wealth distribution and politics within the next decade.

But the challenge is that things can easily go wrong because the margin for error has become slim. The greatest threat to South Africa is undoubtedly an ANC leadership that responds to populist politics in kind – leading to a position where South Africa finds itself sliding down a Zimbabwe-style slippery slope of elite accumulation, political populism and eventually a shrinking economy. This would be a reversal of the prospects for greater pluralism and non-racialism – the emergence of a narrow new black elite who step into the shoes of the narrow white elite who previously ran the country. It would signal an end to the current growth in diversity and efforts at empowerment of a broad cross section of society. One particular red light here is the challenge of having two centres of power, since the ANC will elect its new president (and therefore very likely the incoming

president of the country) in 2017, whereas national elections are only scheduled two years later – in 2019.

There is much work to be done here. According to the *Twenty-year review*, published by the Presidency early in 2014, 'Nation building and social cohesion remain work in progress. Public opinions on race relations, pride in being South African, and identity based on self-description all show little improvement or a decline.'⁸¹ The 'Nation Divided' scenario envisaged in the previous ISS paper is a low road, where the country's investment status is downgraded to junk status, which, in turn, results in macro instability with high inflation, capital flight, currency depreciation and periods of negative GDP growth for several years. For a country with already high levels of public debt, the outcome could be socially disruptive.

Many South Africans have lost faith in the inclusive vision for the country that emerged from the negotiations and first years of freedom in the 1990s. Racial prejudice against foreigners among poor South Africans runs deep, and there is little visionary leadership on the need for tolerance, compromise and a future that is inclusive. Faced with slow growth and escalating demands from an influential moneyed elite, the ANC has stepped back from the inclusive spirit of the Rainbow Nation. Only a scant few years after it was adopted, ANC leaders now seldom publicly refer to the NDP – preferring references to 'the Freedom Charter as a centrepiece of state planning because it's easier to look back'.⁸²

There has been much progress in South Africa but the big question is, how long will South Africa's patience with high unemployment, high inequality and poor service delivery last? Much more decisive steps are needed to change the country's current mediocre growth prospects. The country's leaders need look no further than the 18 million South Africans still living in the former Bantustans. In line with the thinking advanced by Peruvian economist Hernando de Soto, the transfer of communal to private property in these areas would be simply one measure through which rural black South Africans could be empowered and transform dead capital into bankable assets. Such change requires a government committed to economic growth as a first priority. The unemployment challenge facing South Africa is severe, disempowering and debilitating. And, more than any other problem, it points to the need for much more innovation in thinking about the country's economic future and much better planning. Current approaches that lock a relatively small number of unionised employees into the formal economy and, through inflexibility, raise the bar for the entry of others into employment while keeping skilled foreigners at bay simply will not do.

There are many ways to build economic inclusiveness, such as making it obligatory for companies to include nominees from its workers on the board or to allow them to own a minimum stake in the business. However, current efforts to improve relations between business, labour and government through structures such as the National Economic Development and Labour Council have not improved the adversarial relationship that detracts from growth. Only when South Africa has built inclusive systems at various levels in its politics and economy will inclusiveness drive sustained faster growth.

The national Bafana Bafana team has already been relegated to the Redux League. Now it is a team with low morale, without a captain. It has many ideas but no game plan. This is because most of its players were appointed due to loyalty to the coach and not on the basis of their skills. They pass the ball and can dribble a bit, but have little chance of scoring a goal because they are unfit and do not play as a team. Something has to change if Bafana Bafana is to graduate back to the big league.



SOUTH AFRICA IS IN THE
MIDST OF A GENERATIONAL
CHANGE IN SOCIETY.
THIS IS KEY TO THE
FUTURE OF SOUTH AFRICA,
PARTICULARLY IF THE
COUNTRY IS TO GRADUATE
FROM ITS OBSESSION WITH
RACE AS THE MARKER OF
GOOD AND EVIL

Annexure: International Futures and interventions

International Futures (IFs) is large-scale, long-term, integrated modelling software housed at the Frederick S Pardee Center for International Futures at the Josef Korbel School of International Studies, University of Denver. The Pardee Center is in partnership with the ISS through the African Futures project, and the partners have published a series of papers on various aspects relating to the implementation of South Africa's NDP and African development (see www.issafrica.org/futures).

The IFs system allows researchers to see past relationships between variables, and how they have developed and interacted over time. The Base Case forecast represents where the world seems to be heading given our history, and current circumstances and policies. The potential to undertake scenario analysis augments this Base Case by exploring the leverage that policymakers have to push the systems towards more desirable outcomes. The IFs software consists of 11 main modules: population, economics, energy, agriculture, infrastructure, health, education, sociopolitical factors, international political factors, technology and the environment. Each module is closely connected with the others, creating dynamic relationships among variables across the entire system. The full model is available at pardee.du.edu/access-ifs.

All three scenarios used in this paper ('Bafana Bafana', 'Bafana Bafana Redux' and 'Mandela Magic Lite') include amended population forecasts to bring the data in IFs (which draws its data from UN global datasets) in line with the 2014 mid-year population estimates released by Stats SA in July 2014 as statistical release P0302.⁸³ The Stats SA data, among others, reflects significant improvement in life expectancy (to 59.1 years for males and 63.1 years for females) and infant mortality (to 34.4 in 2014). An important reason for these improvements is a reduction in HIV infection rates. Stats SA also provides data for net inward migration (average of 202 741 persons per year for the period 2011 to 2015) as well as a mid-2014 population estimate (54 million persons). These figures change the population forecasts in a number of ways, generally resulting in an increased population, higher economic growth rate and lower income per capita.

Table 1: Population interventions (all scenarios)

Parameter	Explanation	Change
migrater	Migration rate (inward) net percentage of population	Change from 0 in 2010 to .5 in 2010. Interpolate to .25 by 2050
pop	Population size	Change to 51.45 in 2010
HIVRATE	HIV infection rate, percent of adult population	Change to 10.3 in 2010
hlmortm (OthCommumDis)	Mortality multiplier from deaths from other communicable diseases	Interpolate from 1 in 2010 to .5 in 2014 and keep at .5 until 2050
hlmortm (diarrhoea)	Mortality multiplier from deaths from diarrhoea	Interpolate from 1 in 2010 to .5 in 2014 and keep at .5 until 2050
hlmortm (malaria)	Mortality multiplier from deaths from malaria	Interpolate from 1 in 2010 to .5 in 2014 and keep at .5 until 2050
hlmortm (total)	Mortality multiplier from all sub-causes	Interpolate from 1 in 2010 to .65 in 2014 and keep at .65 until 2050

The additional interventions used to create the 'Bafana Bafana Redux' and 'Mandela Magic Lite' scenarios in IFs version 7.09 are given in Table 2. Each parameter directly modifies one variable or variable group, producing changes against the base-case forecast in IFs. Because of the high level of integration between modules of IFs, with outcomes in one variable influencing the forecast of others, interventions made in one parameter will have secondary impacts on other variables.

Table 2: Additional scenario interventions for 'Bafana Bafana Redux' and 'Mandela Magic Lite'

Parameter	Explanation	Bafana Bafana Redux	Mandela Magic Lite
mfpadd	Multifactor productivity growth additive factor	Interpolate from 0 in 2010 to -0.0064 by 2014, -0.007 in 2015, -0.00825 in 2016, 0.00875 in 2017, -0.00729 in 2018, -0.00583 in 2019, -0.00438 in 2020, -0.00292 in 2021, 0.00146 in 2022, 0 in 2023. Keep at -0.0126 in 2019. Interpolate to 0 in 2023.	Interpolate from 0 in 2010 to -0.0126 by 2018. Keep at -0.0126 in 2019. Interpolate to 0 in 2023
Governance			
goveffectm	Improve government effectiveness	0.9 from 2011 to 2035	Change/repeat 0.9 in 2010 to 2017, interpolate to 1 by 2035
govregqualm	Improve government regulatory quality		Interpolate from 2017 to 1.05 by 2035
econfree	Improve economic freedom		Interpolate from 2017 to 1.036 by 2035
govcorruptm	Reduce government corruption		Interpolate from 2017 to 1.131 by 2035
Finance			
Gdsm (Infrastructure)	Increase government expenditure on infrastructure		Interpolate from 2017 to 1.2 by 2035
Gdsm (InfraOther)	Increase government expenditure on other infra		Interpolate from 2017 to 1.2 by 2035
Gdsm (RD)	Increase government expenditure on R & D		Interpolate from 2017 to 1.2 by 2035
xfdistrockr	Increase foreign direct investment		Interpolate from 2017 to 15 by 2035
ICT			
ictbroadm	Increase % population with access to broadband		Interpolate from 2017 to 1.1 by 2035
ictbroadfromtelem	Increase ICT broadband from telephone		Interpolate from 2017 to 1.1 by 2035
ictbroadcostm	Reduce cost of adding a broadband connection		Interpolate from 2017 to 0.9 by 2035
Reductions in crime and violence			
sfintlwaradd	Violence/instability		Interpolate from 2017 to -0.12 by 2035

Parameter	Explanation	Bafana Bafana Redux	Mandela Magic Lite
Health			
aidsdratem	Reduce AIDS death rate		Interpolate from 2017 to 0.9 by 2025. Interpolate to 0.75 by 2040
hivtadvr	Reduce AIDS rate from HIV infections		Interpolate from 2017 to 0.25 by 2035
malnm	Reduce malnutrition		Interpolate from 2017 to 0.8 by 2035
Education			
edprisurm	Increase primary survival rates		Interpolate from 2017 to 1.01 by 2027, repeat
edpriintnm	Increase primary net intake		Interpolate from 2017 to 1.1 by 2027, repeat
edsecupprtrnm	Improve upper secondary transition rate		Interpolate from 2017 to 1.04 by 2027, repeat
edsecupprsurm	Improve upper secondary survival rate		Interpolate from 2017 to 1.1 by 2027, repeat.
edterintm	Increased tertiary intake rate		Interpolate from 2017 to 1.1 by 2027, repeat
Water, sanitation, energy, social grants			
sanitationm	Sanitation – improve access		Interpolate from 2017 to 1.1 by 2027, repeat
Watsafem (Piped)	Water – improve access to piped water		Interpolate from 2017 to 1.1 by 2027, repeat
endemm	Energy – increase efficiency		Interpolate from 2017 to 0.9 by 2035
goovhhtmwel(Unskilled)	Government to household welfare transfers (unskilled)		Interpolate from 2017 to 1.1 by 2027, repeat

Notes

The author extends special thanks to the following reviewers: Julia Schünemann, Axel Schimmelpfennig, Iraj Abedian and Steve Hedden.

- 1 Address by President PW Botha at the opening of the National Party's congress, Durban, 15 August 1985, www.politicsweb.co.za/politicsweb/action/media/downloadFile?mdia_fileid=1065, accessed 15 March 2015, 4, 7, 13 and 18.
- 2 Heribert Adam, Frederik Van Zyl Slabbert, Kogila Moodley, *Comrades in Business – Post-Liberation Politics in South Africa*, Cape Town: Tafelberg, 1997, 51-65
- 3 Jakkie Cilliers, *South African futures 2030: How Bafana Bafana made Mandela Magic*, ISS paper 253, February 2014, www.issafrica.org/publications/papers/south-african-futures-2030-how-bafana-bafana-made-mandela-magic, 7.
- 4 This approach can be considered akin to that of South African economist JP Landman, who wrote *The long view* to 'challenge the notion that South Africa is on the verge of collapse and implosion'. JP Landman, *The long view: Getting beyond the drama of South Africa's headlines*, Johannesburg: Stonebridge (fourth impression), 2014.
- 5 National Planning Commission, National Development Plan 2030: Our future – make it work, www.gov.za/issues/national-development-plan-2030, 99, accessed 15 March 2015.
- 6 Population forecasts differ slightly for each of the forecasts used in this paper. Figures given here are for the 'Bafana Bafana' scenario. That scenario is, in turn, updated from the 2014 scenarios included in Jakkie Cilliers, *South African futures 2030: How Bafana Bafana made Mandela Magic*, ISS paper 253, February 2014, www.issafrica.org/publications/papers/south-african-futures-2030-how-bafana-bafana-made-mandela-magic. The details of the adjustments are in the annexure.
- 7 Stats SA estimated South Africa's 2014 mid-year population at 54 million. See <http://beta2.statssa.gov.za/publications/P0302/P03022014.pdf>, accessed 21 March 2015. The forecast is done in International Futures (IFs) version 7.09, adjusting the IFs Base Case values for population size, inward migration, life expectancy, infant mortality and HIV/AIDS levels to those in the 2014 mid-year population estimates. See the annexure for the exact interventions.
- 8 The largest contributor to the higher population forecast here compared to that in the National Development Plan is from inward migration. See Table 4 in <http://beta2.statssa.gov.za/publications/P0302/P03022014.pdf>, accessed 21 March 2015, 5.
- 9 Jakkie Cilliers, *South African futures 2030: How Bafana Bafana made Mandela Magic*, ISS paper 253, February 2014, www.issafrica.org/publications/papers/south-african-futures-2030-how-bafana-bafana-made-mandela-magic.
- 10 *Ibid.*, 13–14.
- 11 *Ibid.*, 19.
- 12 This era included periods of rapid growth shortly after the war and again in the mid-1960s. See A Roux, *Everyone's guide to the South African economy*, Cape Town: Zebra Press (11th ed.), 2014, 38–39.
- 13 Jakkie Cilliers, *South African futures 2030: How Bafana Bafana made Mandela Magic*, ISS paper 253, February 2014, www.issafrica.org/publications/papers/south-african-futures-2030-how-bafana-bafana-made-mandela-magic, 7.
- 14 National Planning Commission, National Development Plan 2030: Our future – make it work, www.gov.za/issues/national-development-plan-2030, 110.
- 15 Eli Margolese-Malin, Jonathan D Moyer, Mickey Rafa and Mohammad Irfan, *Enterprising Cape: building an inclusive and vibrant economy*, 24 April 2015, www.issafrica.org/futures/policy-brief/enterprising-cape-building-an-inclusive-and-vibrant-economy, accessed 30 April 2015.
- 16 According to the World Bank, the country had a gross capital income per capita above US\$12 746 in 2013 prices. See <http://data.worldbank.org/about/country-and-lending-groups>, accessed 19 March 2015. South Korea became a high-income nation in 1995.
- 17 JP Landman, *The long view: Getting beyond the drama of South Africa's headlines*, Johannesburg: Stonebridge (fourth impression), 2014, 27.
- 18 A Roux, *Everyone's guide to the South African economy*, Cape Town: Zebra Press (11th ed.), 2014, 48.
- 19 JP Landman, *The long view: Getting beyond the drama of South Africa's headlines*, Johannesburg: Stonebridge (fourth impression), 2014.
- 20 This insight comes from Iraj Abedian during his review of this paper.
- 21 See, for example, the remarks by Kaizer Nyatumba, Factory sector is running on empty, *Business Day Live*, 29 March 2015, www.bdlive.co.za/businesstimes/2015/03/29/factory-sector-is-running-on-empty, accessed 1 April 2015.
- 22 Steve Hedden and Jakkie Cilliers, *Parched prospects: The emerging water crisis in South Africa*, African Futures Paper 11, 15 September 2014, available at www.issafrica.org/futures/publications/papers/parched-prospects-the-emerging-water-crisis-in-south-africa
- 23 Mark Allix, Policy contradictions at the root of economic stagnation, *Business Day*, 23 March 2015, 11.
- 24 Ann Bernstein, Policy rethink must consider SA's need for skills dividend, *Business Day*, 22 May 2015.
- 25 JP Landman, *The long view: Getting beyond the drama of South Africa's headlines*, Johannesburg: Stonebridge (fourth impression), 2014, 183.
- 26 IMF Country Report No. 14/338 South Africa 2014 Article IV Consultation – staff report; informational annex; staff report for the 2014 Article IV Consultation – debt sustainability analysis, December 2014, www.imf.org/external/pubs/ft/scr/2014/cr14338.pdf, 12, accessed 16 March 2015.
- 27 Industrial Development Corporation, macro-economic forecasts, updated 28 May 2015, www.idc.co.za/researchreports/economic-research-reports/economic-forecasts.html, accessed 7 July 2015.
- 28 Carol Paton, Nene lays economic problems at SA's door, *Business Day*, 18 March 2015, 1.
- 29 The most important of the various remedial efforts is the proposed nuclear new-build programme (or various equivalent measures) meant to add 9 600 megawatts to the national electricity grid by 2030. See Energy gives update on nuclear new build programme, 31 March 2015, www.gov.za/speeches/energy-gives-update-nuclear-new-build-programme-31-mar-2015-0000, accessed 3 April 2015. Contrary to previous reports, the newly appointed Eskom interim chief executive officer, Brian Molefe, released a statement on 23 April 2015 indicating that the backlog will be eliminated in five years. See Eskom on maintenance plan, www.gov.za/speeches/eskom-maintenance-programme-23-apr-2015-0000, accessed 30 April 2015.
- 30 See Eskom a positive crisis, *BusinessTech*, 31 March 2015, <http://businesstech.co.za/news/government/84033/eskom-a-positive-crisis-anc/>, accessed 1 April 2015.
- 31 Industrial Development Corporation Department of Research and Information, *Economic overview*, March 2015, www.idc.co.za/images/download-files/economic-overviews/economic_overview_mar_2015.pdf, 10, accessed 12 April 2015. In April 2015 economist Dawie Roodt stated: 'If we'd had enough electricity since 2007 and it was not a limiting factor, the economy could have been about 10 percent bigger than it actually was by the end of 2014 ... That is more than 300 billion rand (\$25.3 billion), or more than a million job opportunities.' (Quoted in Rene Vollgraaff, Eskom has slashed R400bn off SA's economy in last seven years, www.biznews.com/undictated/2015/04/08/eskom-slashed-10-off-the-size-of-sas-economy-in-seven-years/?utm_source=BizNews.com&utm_campaign=d0320e3e9b-Daily_Newsletter_10.4.2015&utm_

- medium=email&utm_term=0_d5e2e8a496-d0320e3e9b-100572145), accessed 10 April 2015.
- 32 Gavin Keeton, Dreams of an energy bonanza may be stillborn, *Business Day Live*, 30 March 2015, www.bdlive.co.za/opinion/columnists/2015/03/30/dreams-of-an-energy-bonanza-may-be-stillborn, accessed 30 March 2015.
 - 33 Unless indicated otherwise, all figures in US dollars and rands have been adjusted to 2014 prices. IFs uses 2011 as the standard base year, which was multiplied by 1.052 to get to the 2014 equivalent. The conversion factor from 2014 US dollars to 2014 rands was 0.091763. A five-year moving average has been adopted as standard practice except when comparing annual figures/percentages.
 - 34 Eli Margolese-Malin, Jonathan D Moyer, Mickey Rafa and Mohammod Irfan, *Enterprising Cape: building an inclusive and vibrant economy*, 24 April 2015, www.issafrica.org/futures/policy-brief/enterprising-cape-building-an-inclusive-and-vibrant-economy, accessed 30 April 2015.
 - 35 Ibid.
 - 36 For an explanation of how IFs works with multifactor productivity, see Barry B Hughes, Forecasting global economic growth with endogenous multifactor productivity, December 2007, http://pardee.du.edu/sites/default/files/WP_2007_12_Endogenous_MFP_0.pdf, accessed 3 April 2015.
 - 37 Daron Acemoglu and James A Robinson, *Why nations fail: The origins of power, prosperity, and poverty*, London: Profile Books, 2013.
 - 38 Ibid., 3–4.
 - 39 Karl Popper, *The open society and its enemies*, London: Routledge Classics, 1995.
 - 40 The Presidency, *Twenty-year review, South Africa 1994–2014*, www.thepresidency-dpme.gov.za/news/Pages/20-Year-Review.aspx, 2, accessed 11 April 2015.
 - 41 Ibid., foreword.
 - 42 Heribert Adam, Frederik Van Zyl Slabbert, Kogila Moodley, *Comrades in Business – Post-Liberation Politics in South Africa*, Cape Town: Tafelberg, 1997, 1
 - 43 There is a great deal of literature on patronage and conflict of interest stemming from the presidency of Jacob Zuma. See, for example, Adriaan Basson, Zuma exposed, Johannesburg: Jonathan Ball, 2012 and Richard Calland, *The Zuma years: South Africa's changing face of power*, Cape Town: Zebra Press, 2013.
 - 44 In May 2015 global consulting firm A.T. Kearney released its annual report on how senior management around the globe rate various countries in terms of foreign direct investment. South Africa was highly ranked at no. 11 in 2012, no. 15 in 2013 and no. 13 in 2014. By 2015, however, it had dropped off the top 25 list of country rankings. The 2015 A.T. Kearney Foreign Direct Investment Confidence Index is available at www.atkearney.com/research-studies/foreign-direct-investment-confidence-index/2015, accessed 5 May 2015. Regaining investor confidence after a series of strikes in the platinum industry, xenophobic riots, rolling electricity load shedding and the imminent threat of a downgrade to junk rating by international rating agencies will be a long-term endeavour.
 - 45 This is one of two alternative pathways towards 'Mandela Magic', developed in Jakkie Cilliers, *South African futures 2030: How Bafana Bafana made Mandela Magic*, ISS paper 253, February 2014, www.issafrica.org/publications/papers/south-african-futures-2030-how-bafana-bafana-made-mandela-magic.
 - 46 Jakkie Cilliers, The ANC's long-term election prospects, *ISS Today*, 18 June 2014, www.issafrica.org/iss-today/the-ancs-long-term-election-prospects, accessed 22 March 2015. An updated election forecast was done for this paper.
 - 47 See Jakkie Cilliers, The ANC's long-term election prospects, *ISS Today*, 18 June 2014, www.issafrica.org/iss-today/the-ancs-long-term-election-prospects, accessed 22 March 2015.
 - 48 An earlier version of this section was published by the ISS, see Jakkie Cilliers, South African politics beyond Zille, *ISS Today*, 17 April 2015, www.issafrica.org/iss-today/south-african-politics-beyond-zille accessed 30 April 2015.
 - 49 Bongani Mthethwa, Jan-Jan Joubert and Mark Klusener, Provinces will battle to pay headman 28% more, *Business Day*, 23 Jun 2015, 3. KwaZulu-Natal Eastern has 2 039 headman, the Eastern Cape has 1 193, Limpopo 1 513 Mpumalanga 464 and the Free State 104. All other provinces have less than 100 headmen.
 - 50 Nombiniso Gasia, State repeats mistakes in third attempt at courts bill, *Business Day*, 22 June 2015, 11
 - 51 The Living Standards Measure is a widely used South African marketing-research tool that divides the population into 10 LSM groups using criteria such as degree of urbanisation, and ownership of cars and major appliances. See www.saarf.co.za/LSM/lsms.asp.
 - 52 Ferial Haffajee, Days of future past, *City Press*, 26 April 2015, 3.
 - 53 For a useful discussion on the challenge of measuring market-capitalisation ownership by race on the JSE, see Stuart Theobald, Measuring black ownership on JSE, *Business Day Live*, 16 March 2015, www.bdlive.co.za/opinion/columnists/2015/03/16/on-the-money-measuring-black-ownership-on-jse, accessed 9 May 2015.
 - 54 Jannie Rossouw, Probe bosses to close the wage gap, *Mail & Guardian Business*, June 19 to 25 2015, 6
 - 55 Expressed in market exchange rates.
 - 56 This calculation therefore represents the change in HDI and Gini in IFs, and not actual scores.
 - 57 See <http://hdr.undp.org/en/data>, accessed 28 March 2015.
 - 58 The vast majority were created in the four years when the economy grew rapidly. Thereafter, the country lost almost a million jobs during the 2008/09 recession. Although it managed to claw most of those back, overall employment at the end of 2014 was only 880 000 higher than at the start of 2008. See Industrial Development Corporation, Department of Research and Information, *Economic overview*, March 2015, www.idc.co.za/images/download-files/economic-overviews/economic_overview_mar_2015.pdf, 12, accessed 12 April 2015. JP Landman, *The long view: Getting beyond the drama of South Africa's headlines*, Johannesburg: Stonebridge (fourth impression), 2014, 65.
 - 59 JP Landman, *The long view: Getting beyond the drama of South Africa's headlines*, Johannesburg: Stonebridge (fourth impression), 2014, 67.
 - 60 See www.epwp.gov.za/, accessed 22 March 2015. Expanded Public Works Programme Phase 2 intended to create 4.5 million work opportunities for poor and unemployed people in South Africa.
 - 61 Stats SA, *National and provincial labour market: Long-term unemployment Q3: 2008–Q3: 2014*, 3 February 2015, 1, <http://beta2.statssa.gov.za/publications/P02114.4/P02114.42014.pdf>, accessed 22 March 2015. This would be using the expanded definition.
 - 62 The Presidency, *Twenty-year review, South Africa 1994–2014*, www.thepresidency-dpme.gov.za/news/Pages/20-Year-Review.aspx, 41, accessed 11 April 2015.
 - 63 The employment figures include the formal non-agricultural sector, the informal non-agricultural sector, the agricultural sector and private households. For 2014 this provides an unemployment rate of 24.9% (using the official definition), an employment/population ratio of 43% and a labour-force participation rate of 57%, reflecting the percentage of the labour force working or interested in working. See Stats SA, Quarterly labour force survey, quarter 5, 2014, www.statssa.gov.za%2Fpublications%2FP02111%2FP02114thQuarter2014.pdfBulletin, accessed 7 May 2015, v. This is slightly higher than the estimate using IFs. The labour-force participation rate measures the proportion of a country's population that is employed or actively looking for employment out of the working-age population that is part of the labour force. Terms available at <http://>

- termsexplained.com/927402/labor-force-participation-rate. The 2014 labour participation rate using IFs is about 1% lower than that from Stats SA.
- 64 Figure 9 should be treated with caution, given the expected increases in education uptake in future years, which would reduce the available labour force.
- 65 It is therefore unlikely that the target of 5 million new jobs from 2010 to 2020, as set out in the New Growth Path, will be achieved.
- 66 See public service update on government wage negotiations, 16 April 2015, www.gov.za/speeches/public-service-update-government-wage-negotiations-16-apr-2015-0000, accessed 17 April 2015.
- 67 Dataset available at www.weforum.org/reports/global-competitiveness-report-2014-2015, accessed 29 March 2015. South Africa's government wage bill equated to 13.8% of GDP in 2012, the fifth highest of 26 countries after Denmark, Iceland, Sweden and Finland. The ratio in the US is 10.2% and 10.5% in the Eurozone. See Mike Cohen, Showdown looms as civil servants demand 10% pay hike, Business Report, *Sunday Independent*, 29 March 2015, 1.
- 68 The African Futures project has produced two policy papers on poverty in Africa, the second of which proposes an updated global extreme poverty line of US\$1.75 in 2011 purchasing power parity. See www.issafrica.org/futures/papers.
- 69 During 2015 Stats SA released its rebasing of South African poverty lines to 2011 purchasing power parity, which sets the income levels to R11.17 per day for the food poverty line, R16.71 for the lower poverty line and R25.92 for the upper poverty line. Based on 17.65% inflation from 2012 to 2014, this comes to R19.71 in 2014 prices. If converted into US dollars, the South African extreme poverty line is almost double the international line, still generally set at US\$1.25 a day in 2005 purchasing power parity. See Stats SA, *Methodological report on rebasing of national poverty lines and development of pilot provincial poverty lines*, Technical Report No 03-10-11, 2015, 10–11, www.statssa.gov.za%2Fpublications%2FReport-03-10-11%2FReport-03-10-11.pdf, accessed 13 April 2015.
- 70 The Presidency, *Twenty-year review, South Africa 1994–2014*, www.thepresidency-dpme.gov.za/news/Pages/20-Year-Review.aspx, 45, accessed 11 April 2015.
- 71 The IFs system calculates poverty levels endogenously. Its calculations for the food poverty line are similar to figures provided by Stats SA, but it produces slightly lower levels of poverty at the lower bound poverty line and the upper bound poverty line.
- 72 Daron Acemoğlu and James A Robinson, *Why nations fail: The origins of power, prosperity, and poverty*, London: Profile Books, 2013, 427.
- 73 Heribert Adam, Frederick Van Zyl Slabbert, Kogila Moodley, *Comrades in Business – Post-Liberation Politics in South Africa*, Cape Town: Tafelberg, 1997, 5.
- 74 That situation led to the Carnegie Commission of investigation of the Poor White Problem in South Africa of 1932.
- 75 South Africa, Department of Planning, Monitoring and Evaluation, *2014–2019 Medium-Term Strategic Framework*, www.thepresidency-dpme.gov.za/keyfocusareas/outcomesSite/Pages/the-Outcomes-Delivery-Agreements.aspx, 6, accessed 7 April 2015.
- 76 Greg Marinovich, A tragedy of desperate need, broken promise, *Sunday Times*, 28 June 2015, 8.
- 77 Ibid.
- 78 Jakkie Cilliers, *South African Futures 2030: How Bafana Bafana made Mandela Magic*, ISS paper 253, February 2014, www.issafrica.org/publications/papers/south-african-futures-2030-how-bafana-bafana-made-mandela-magic, 25–29.
- 79 During 2015 this become an official policy of the Democratic Alliance.
- 80 Other things being equal, countries with youthful populations have more crime and tend to be more unstable than countries with an older population structure. Whereas the median age of South Africa is 26 (i.e. half the population is younger and the other half older than 26), the median age for the rest of sub-Saharan Africa is much lower, at 18 years of age. The EU has a much higher median age of 42, reflecting its much older population structure.
- 81 The Presidency, *Twenty-year review, South Africa 1994–2014*, www.thepresidency-dpme.gov.za/news/Pages/20-Year-Review.aspx, 18, accessed 11 April 2015.
- 82 Ferial Haffajee, Days of future past, *City Press*, 26 April 2015, 3.
- 83 Available at <http://beta2.statssa.gov.za/publications/P0302/P03022014.pdf>, accessed 5 June 2015.

About the author

Jakkie Cilliers is the executive director of the ISS and head of the African Futures and Innovation section. He is an extraordinary professor in the Centre of Human Rights and the Department of Political Sciences, Faculty of Humanities at the University of Pretoria.

About the ISS

The Institute for Security Studies is an African organisation that aims to enhance human security on the continent. It does independent and authoritative research, provides expert policy analysis and advice, and delivers practical training and technical assistance.

Acknowledgements



This paper has been made possible by support from the Hanns Seidel Foundation. The ISS is also grateful for the support of the following members of the ISS Partnership Forum: the governments of Australia, Canada, Denmark, Finland, Japan, Netherlands, Norway, Sweden and the USA.

ISS Pretoria

Block C, Brooklyn Court
361 Veale Street
New Muckleneuk
Pretoria, South Africa
Tel: +27 12 346 9500
Fax: +27 12 460 0998

ISS Addis Ababa

5th Floor, Get House
Building, Africa Avenue
Addis Ababa, Ethiopia
Tel: +251 11 515 6320
Fax: +251 11 515 6449

ISS Dakar

4th Floor, Immeuble Atryum
Route de Ouakam
Dakar, Senegal
Tel: +221 33 860 3304/42
Fax: +221 33 860 3343

ISS Nairobi

Braeside Gardens
off Muthangari Road
Lavington, Nairobi, Kenya
Cell: +254 72 860 7642
Cell: +254 73 565 0300

www.issafrica.org