SOUTH AFRICA State of the Nation in 2018

South African Institute of Race Relations

The power of ideas

Prognosis for Reform

February 2018

South Africa State of the Nation in 2018: Prognosis for Reform

This document is drawn from a speech delivered by Frans Cronje*
to the FW de Klerk Foundation in Cape Town on the 28th anniversary
of Mr de Klerk's announcements in Parliament on 2 February 1990.

Published by the Centre For Risk Analysis
2 Clamart Road, Richmond
Johannesburg, 2092 South Africa
P O Box 291722, Melville, Johannesburg, 2109 South Africa
Telephone: 011 482 7221
E-mail: info@irr.org.za
www.irr.org.za

Cover design by InkDesign

Typesetting by Martin Matsokotere

SOUTH AFRICA STATE OF THE NATION IN 2018: PROGNOSIS FOR REFORM

Observers must watch the right markers in order to determine whether South Africa is now on a reformist trajectory. One set of markers relates to the rule of law, corruption and accountable government. These are getting the bulk of analyst attention. But the second set are even more important and relate to policy reform in areas of empowerment, the labour market, property rights, and education.

Our thesis is this; that the initial post-1994 economic recovery, born of equal measures of good fortune and some sensible policy, made possible a far greater improvement in living standards than is commonly understood. That trajectory was broken in the aftermath of the 2007 Polokwane conference and later global financial crisis. Public frustration (measured in polling and voting data) born of now unmet expectations frightened ruling party politicians who tried to counter the trend with equal measures of ideological dogma and populist policy. The response was wholly counter-productive and stalled South Africa's post-crisis recovery, even as other emerging markets grew out of the crisis. The ensuing weak economic performance triggered a significant loss of confidence in the ruling party which in turn triggered deepening populism – and hence the slow turning of a dangerous negative spiral was set in motion. This is essentially where South Africa came to stand in November of last year.

Subsequently, a degree of political realignment has taken place in the ruling party. Whether this realignment will be sufficient to break out of the spiral via an economic recovery sufficient to meet popular expectations is the question this analysis seeks to address.

Meeting popular expectations is essentially a challenge of labour market access. If you conduct a polling exercise and ask South Africans what they most want, what is necessary above all else to improve living standards and build thriving communities, the answer, every time, is employment. Many analysts and politicians argue that South Africa has experienced two decades of jobless growth – but this is not true.

- In fact, since 1994, the number of South Africans with a job has doubled from nearly 8 million to just over of 16 million today.
- The number of black people with jobs has more than doubled.
- The labour market participation rate (a rate that measures what proportion of people of working age work or look for work) increased by almost 30% for black people.
- The dependency ratio that measures how many people depend on every 100 who work has fallen from 380 to 251.

[*Be aware that an unemployment rate may remain high, or even increase, even as the dependency rate falls as a result of an increase in the rate of labour market participation*].

All the above trends brought about great improvements in the lives and circumstances of millions of people across hundreds of thousands of households.

That the extent of labour market expansion surprises many people reveals a problem of a country (and a government) that has, at times, got it wrong in communicating the fine balance that must be struck in any accounting of socio-economic progress or failure.

If labour market data reveals the problem, then service delivery trends establish its extent. It is widely accepted that service delivery has failed, but the data tells a different story:

- In 1996, there were an estimated 5.8 million families living in a formal house. That number has more than doubled to over 13 million today. In 1996, 64% of families lived in a formal house, but now the figure is almost 80%.
- Similar numbers are true for water and electricity delivery. For example, the number of families cooking with electricity (an excellent indicator of living standards) has increased from just over 4 million in 1996

to just under 13 million today – or from less than 50% to more than 80%.

- The number of families with access to clean water has doubled.

Even in areas associated with almost complete failure, such as in schools and education, there has been pleasing progress – the extent of which is brought out most starkly by sketching some historical context:

- In 1955, for example, only 259 black children passed matric. Twenty years later, in 1975, the number was just above 5 000. In 1990 it was slightly over 100 000. Today, it has risen to just under 400 000.
- In 1995, less than half the university class was black, but today the figure is more than 70%, and the number of people being afforded the opportunity of university study has almost tripled since 1990.
- In 1990, there were more than 40 white engineers graduating for every black engineer. Now there are roughly twice as many black as white engineering graduates – even though the number of white graduates has not declined.

In healthcare:

- The number of public sector nurses has increased by almost 50% since 2000.
- The number of public sector doctors has increased by over 60% over the same period.
- The number of new HIV infections has been cut in half since 1999.
- The still-birth rate (a very useful measure of living standards and public health) has fallen by roughly a quarter over the past 15 years.

Violent crime takes a terrible toll on South African communities and the quality of policing is very far from what it should be. But the murder rate, per 100 000 people, has fallen from 67 in 1994 to 34 today – a decline of almost 50%.

We could go on to examine trends that stretch from vehicle ownership rates, to property purchase patterns, and junior school enrolment levels – all the way to trends on the ownership of fridges and vacuum cleaners (the hard measures of middle class expansion), commercial farm land, and the ownership of shares in companies listed on the stock exchange – but all those numbers will point to the same place; a country that is a fundamentally better place to live in than it was 28 years ago – and, considering what might have been, an end that was never assured.

Because of the progress made, and the democratic dividend that has accrued for many millions of people, relations between South Africans are better than many people understand. Contrary to the fear-mongering, polling reveals that a comfortable 80%+ of the population believe that different class and race groups need one another if they are to realise the country's potential – while a comfortable majority believe that relations between South Africans are better, or have suffered no deterioration, than was the case in the heady days of 1994. The social fabric of the country remains sound, albeit under strain – but, of course, no complacency is warranted on this remaining true.

Why it is important to emphasise the story of South Africa's progress is because it is first and foremost the truth – and secondly because it is good for South Africa to know it, along with those who watch the country from abroad. Thirdly, and most usefully, the data on progress, and the trends that flowed from it, contain critical information we need to accurately anticipate what will occur over the decade ahead. Most critical of all is the insight of a crisis of rising expectations – that the successes bred new and ever increasing demands for further improvement and that if these demands are not now met the ruling party may soon find itself in the same trouble it was in just a few weeks ago – and for the same reasons.

Central to meeting initial expectations was the economic stabilisation, secured in the Mandela and Mbeki eras, that allowed for a much-improved economic growth performance between 1994 and 2007 relative to what had occurred in the 1980s and the first three years of the 1990s.

Success in politics requires some good fortune and, admittedly, Mr Mandela and his de-facto prime minister came to power amidst a great deal of that. Interest rates that peaked at over 20% in 1996 would be cut in half. In the 1990s, consumer debt levels (a measure of untapped spending potential), sat at 25 percentage points below where they are today. Bond yields would be cut in half. There was considerable cheap and surplus electricity – and Mr Mbeki would govern through the steepest commodity price cycle the world had ever seen.

Matched with some of the good sense in the thinking underpinning the second iteration of the RDP policy and the GEAR policy of 1996, the data tells the story of what happened next:

- The year-on-year change in levels of fixed investment peaked between 2003 and 2008.
- The year-on-year change in consumer expenditure also peaked in the 2004 to 2007 window. Such expenditure is equivalent to around 60% of GDP and is therefore important in giving direction to the economic growth rate.
- The two above trends conspired to ensure that the economic growth rate recovered from averaging levels of 0% or below for 40% of the 1980s to average around 3% into 2003 before, for four brief years between 2004 and 2007, averaging five percent – incredibly, the first time it had sustained such an average for that number of years since 1970.

It was still a too modest performance and, given the context, much higher levels of economic growth might have been attained. But those criticisms would soon be forgotten as the picture changed very quickly for the worse in late 2007:

- The growth rate sank in the aftermath of the ANC conference at Polokwane, bottomed out in the global financial crisis year, rallied into 2010 and 2011 (as fixed investment and consumer spending rallied) and then declined year after year to a very low 0.3% in 2016.
- Fixed investment levels fell through a deep trough into the global financial crisis, rallied in 2010 and 2011, and subsequently fell flat.
- Consumer confidence and expenditure numbers dived with the fixed investment data into the financial crisis, then rallied briefly off the low base effect and delayed purchasing decisions of 2009, and then fell flat.

The consequences were best read against the global economic growth rate. Having parted ways through the 1980s, South Africa's economic growth rate again showed a high degree of coincidence with the global rate from 1994 to the peak of 2007, through the financial crisis, and back out of the crisis – but only to 2012. From 2013, as the fragile global recovery saw the world's growth rate increase year after year, South Africa's growth rate peeled away on a sharply downward trajectory.

The reasons for the divergence, particularly after 2013, related in the main to counter-productive domestic policy. Threats to nationalise industries from mines to banks were made. Rafts of new expropriation legislation were drafted. The infamous mining charter was introduced. The era was summed up best by the Licensing of Businesses Bill, that promised to send scores of start-up entrepreneurs to jail.

There is an American politician, in Pennsylvania, a Republican, by the name of Stephen Bloom, who is credited with the wonderful statement that 'economics is to politics what gravity is to jumping'.

As confidence and investment levels dipped, and as Mr Bloom's warning suggested, the government and the ruling party were in for a very harsh awakening.

Perhaps the greatest economic policy success of the ANC in government had been the relationship between the budget deficit and the debt-to-GDP ratio. Between 1994 and roughly 2007, debt levels were cut in half (and the saving on the interest bill was sufficient to finance the initial rollout of the social grants net) while the deficit was reduced from a level of around -4% in 1994 to record a small surplus 13 years later. If you plot the two indicators over time they produce an X effect of a narrowing deficit across a falling debt level – and that effect was central to the ANC's initial political success.

But everything was to change. By last year, debt levels had doubled to exceed apartheid-era highs and the budget deficit was forecast to remain at levels last seen pre-1994. At a multiple of the economic growth rate, the deficit was leading the government into a fiscal crisis.

One after another, the key indicators that had been central to South Africa's initial successes in raising living standards began to slow. The rate of formal private sector job creation – given its strong relationship with economic growth and the growth rate's relationship to fixed investment – plateaued after 2007. The rate of increase in welfare extension slowed sharply. Per capita GDP, which in 2006 had for the first time exceeded the previous 1981 high point, plateaued, and, in real terms, has declined since 2014.

For the government and the ruling party the political ramifications were almost instantaneous.

If you overlay the economic and jobs and welfare data with polling information, a remarkable degree of coincidence is revealed. Popular confidence in the future of the country, and by extension the government, peaked in the 2004 to 2007 window (as fixed investment, economic growth, and formal sector job creation peaked). However, such confidence fell by almost 40 percentage points over much of the subsequent decade in near unison with the year-on-year changes in real household income levels. Those income levels in turn show a close inverse correlation to levels of violent anti-government protest action.

You can extend the correlations to voting data. In 2006, at South Africa's post 1994 economic peak, and 18 months before the fateful Polokwane conference, the ANC secured over 66% of the vote in a local government poll – close on the heels of its record 69% showing in the national election two years before that, a moment at which it performed more strongly than when Mr Mandela had led the party a decade earlier. But the post-2007 economic reversal triggered a spectacular reversal in the party's support levels to below 54% in the 2016 local poll – with a like comparative drop of over ten percentage points for the decade. Newspapers warned of a 2019 sub-50% shock for the ruling party (a stick used by the media and his critics to beat Mr Zuma with, but somewhat too sensational, as reliable polling last year suggested the ANC – still pre-Ramaphosa – was on track to get 58% in the 2019 poll, and we would now upgrade that number by a considerable extent).

While it was less sensational than had been reported, a turn in voter support against the ANC had undoubtedly occurred which, as we have established, was preceded by the post-2008 dip in popular confidence in the future of the country which in turn coincided very neatly with changes in household income levels – and, in turn, with protest levels. So good and strong are these patterns and relationships between the economic, social, and political markers that we are confident the information exists to anticipate exactly where to from here for South Africa, its economy, and its political parties – based on the policy decisions that will be taken over the year ahead.

A complete command of the data and correlations is the essential ingredient to making long-term strategy for South Africa – but in our experience very few people have that command.

The years of weak economic performance had left South Africa vulnerable to populist incitement. It was alarming to see the extent to which absolute nonsense such as the 'rogue unit' story and the 'white monopoly capital' argument gained mainstream traction that was nearly sufficient to so distort public perceptions away from the real challenges facing the country that the state capture project almost survived, and in December last year South Africa came within 200 votes, cast by ordinary men and women, of what would have been a very dangerous situation.

In 2013, five years after Polokwane and five years before today, we developed a skeletal scenario set called New Dawn – Dark Night.

- New Dawn spoke of an internal ANC reformation that we compared to the experience of the verligte-Afrikaners and predicted that 'reformists within the party, building largely on the blueprint laid down in the National Development Plan, [will] seize policy control of the ANC and bring about a series of initially unpopular changes...'
- Dark Night set out the implications of accelerated racial nationalist fervour amidst worsening investment and economic indicators warning that 'an obstinate ruling party and government [may] press ahead with failed interventionist policy despite all evidence suggesting that such interventions are doing more harm than good'. In that case, we said the ANC will see 'its electoral majority slip to below 60% in 2019, leading to the party's losing the 2024 election'.

Our confidence in predicting that the ruling party would not survive a further decade of misrule was established in the work we had done on the correlations between South Africa's economic performance and the sentiment of ANC supporters.

That insight may remain a heartening realisation for many South Africans – that a government that strays too far for too long from the path of economic righteousness will probably not retain a national majority for very long. The country may have an immunity to long-term misgovernment built into its voting DNA – a powerful countervailing force in favour of South Africa's long-term success.

We presented the scenario set to leaders of political parties. One side of the divide dismissed the New Dawn outcome out of hand – that it could never occur, they were emphatic. But there were leaders on the other side of the divide who showed interest in the scenario and in the reforms that would underpin it. It was in part on the tentative strength of that experience that we built the Wide Road scenario in 2014 and the Rise of the Rainbow in 2017 – both of which suggested that the ruling party might reform to survive.

It is too early yet to say with any confidence whether that is what has happened over the past six weeks – and whether our upside scenarios are now firmly in play. Whether that will be the case hinges on how the new administration, which may be led by Mr Ramaphosa, addresses two fundamental questions:

- The first is the restoration of the rule of law. It is a month into the year, and the signs so far are promising. But the test will be to see if these early actions translate into a raft of successful prosecutions – an important catharsis and marker that the paradigm has indeed shifted.
- The second is economic policy reform and, here, the obstacles are very great. There are three that must specifically be overcome and that are each so important that failure in any one of them will see the reformation stall – even if Mr Ramaphosa manages to take confident control of his party, deals effectively with corruption and malfeasance, and re-establishes the rule of law.

The first is the budget deficit. The deepening deficit since 2008 mirrors perfectly a falloff in company tax as a share of GDP. Yet both government revenue and expenditure as a share of GDP have continued to rise sharply – financed in part through the borrowing that doubled the debt-to-GDP ratio and through placing a now near intolerable burden on individual income tax payers. We estimate that in the region of half a million individuals, out of an adult population of near 30 million people, contribute over 60% of individual income tax. It must alarm any observer that the revenue paid by individuals as a share of GDP has increased by more than two percentage points since 2007, while the total revenue-to-GDP ratio is advancing on a two decade high point.

Mr Ramaphosa's new administration may not, as a consequence, immediately have the money it needs to develop the infrastructure needed to support an economic recovery while also delivering on the welfare and service delivery demands of several million households.

The antidote is growth, but our forecasts are that growth rates will this year underperform emerging market averages by around 70%. It worries us that policy makers are talking of taking the economic growth rate up to 2%.

That is nowhere near the watershed level for breaking the structural unemployment crisis — the second major obstacle the government faces. Roughly, South Africa creates 100 000 net new jobs per point of GDP growth per year. To reduce the black unemployment rate to the white rate, which is competitive with developed economy norms, will require the creation of around one million net new jobs per year over the next decade. An economic growth rate of 5% will get South Africa halfway there. Short of that, the ruling party may not sufficiently deliver on popular expectations to secure a decade-long 60% mandate. We sense this because of polling showing that people too young to have a lived experience of apartheid are considerably more sceptical of the ruling party than those who remember the time – an age-bracket trend that further correlates to unemployment rates. Fail to address that scepticism through employment, and popular opinion among young people will progressively swing against the ruling party, opening a new door for opposition politicians – although not, perhaps, to the extent that the door was thrown open over the past decade.

Remember, too, that Mr Ramaphosa sets about his task without the same measure of good economic fortune that was the case for Mr Mbeki. Most notably, consumer debt levels today are too high to allow for a domestic consumer-driven recovery – fixed foreign and domestic investment numbers will be a key lead indicator for the growth rate.

The third hurdle is in education. An assessment we conducted of the Grade-10 class of 2014 found that just over 50% of that cohort progressed to matric in 2016. Around 14% of the cohort qualified for university study at a standard set so low as to be useless to any serious analysis. Less than 3% of the cohort passed matric maths with a grade of 60% or higher – a qualification that offers a young person the reasonable prospect of ascending to the middle classes within a decade.

There is a strong correlation between levels of education and labour market absorption – so much so that only among university graduates does South Africa display an absorption rate on a par with its emerging market peers. This insight in turn correlates with data on the changing structure of both GDP and the labour market. Without doubling the number of maths passes in matric every five years (there are so few such passes as things stand that the target could be reached) it will be very difficult for the government to deliver on demands for middle class access.

Reflecting on these three policy challenges will temper the expectations of even the most fervent South Africa bulls. The events of the past six weeks are very welcome but meeting popular expectations is a much greater challenge than the bulk of the writing on South Africa this past week has suggested – and a challenge that extends well beyond the problem of state capture.

Why is there any doubt that the government will move more swiftly towards these reforms?

There are three reasons.

- One is that the balance of power in the leadership of the ruling party does not align perfectly with public opinion – a key reason for the party's recent weakness. Polling suggests that people may be more open to reform in the three critical policy areas above, and others, than some senior leaders in the government and the ruling party are.
- The second, and related reason is the crippling effect of ideological dogma that regards markets, investors, property rights, entrepreneurs, free speech, independent institutions, constitutional safeguards, and the rule of law as the impediments that stand between people and the realisation of their aspirations to a better life. The dogma must, and can, be overcome.
- Finally there is the question of competence – reform is very difficult and even with the right intentions a reformist agenda will fail if the people who must drive it at ground level are not up to the job.

If these obstacles are overcome, and they can be, what would a sufficiently ambitious and effective reformist agenda entail?

We brief many firms on the likely trajectory of the country, and the briefings are a useful barometer of investor sentiment towards current government policy which time and again reveal three areas of investment disincentives.

The first of these is empowerment policy – as it has come to be practised. There is never any doubt that effective ways of ensuring accelerated rates of economic inclusion are necessary and desirable. However, as it is practised, the policy is often seen as a tax on investment and an attempt to extract wealth on behalf of a small political elite. Very few, perhaps none, of the firms we brief will state this in public for fear of the political consequences. But our experience is sufficient to suggest that unless fundamental changes are made to empowerment policy, South Africa will not succeed in becoming a competitive investment destination again.

We would encourage the government to consider that current empowerment policy be turned on its head to focus on the inputs (education and entrepreneurship being key) that are necessary to accelerate disadvantaged people into the mainstream economy – while the beneficiaries of the policy are selected on the grounds of established socio-economic disadvantage, the same basis that made the social grants system so effective in securing a degree of socio-economic upliftment. Critics of the latter proposal say it cannot be done because race must remain the founding basis of empowerment policy. But the distinction between what we propose and the approach of the government is not as great as that critique suggests – and there is much common ground on the importance of ensuring that black people benefit. Our response to the critics would be to say that under our approach the beneficiaries will be black, almost all of them, as a function of the inequalities in our society. But they will have benefited not because of their race but because their circumstances are such that it is right and good that they are supported to enter the mainstream (circumstances that can easily be established via a means test that may, for example, determine if your parents went to university or owned property above a certain value). We will also remind our critics that under the policy of the government, the beneficiaries are not always black (we have scandalous data in our possession) while often the beneficiaries are already firmly established in business and the middle classes – and the policy seldom reaches as deep into poor communities as an empowerment policy should.

The second area of investor concern is threats to property rights. From the cancellation of investment treaties to the undermining of intellectual property rights and the recent resolution on expropriation without compensation, the conclusion is inescapable that South Africa is not a country in which your investment is as safe as it might be in other competing jurisdictions. It is futile to entertain the idea that diluting the protections on offer in Section 25 of the Constitution can be done in a manner that does not raise alarm among investors – the drift across emerging markets is towards stronger property rights, not away from them. Nor is there a way out of that conundrum by limiting any dilution to agricultural land. With the precedent set, policy creep means that similar dilution will in time be expanded to other economic sectors – and the risk will for decades affix a flashing red light above the gateway to the economy. The manner in which the new mining charter put the brakes on fixed investment in that industry, by essentially threatening the property rights of shareholders, is a perfect example of the problem.

Property rights must be sacrosanct if we are to attract the investment we need, and to allow poor households to start accumulating assets. Title to their homes would be a good start, as would title and proper financing for emerging farmers. Land reform, as one controversial area of policy, does not fail because of property rights – it fails because emerging farmers are not allowed the advantages of ownership that are central to the model of agricultural production in South Africa. Eliminate freehold title in favour of leases, for example, and you wipe hundreds of billions of rands off the balance sheet of the agricultural economy forever, stunting capital investment and innovation and sabotaging the hopes and dreams of emerging producers.

The third is labour market policy that prices poor people out of work, thereby reducing South Africa's domestic competitiveness and stunting the domestic consumer market – a frustration for many firms who have exhausted South Africa's consumer base. Arguments in favour of ideas such as 'decent work', and the 'outing' and public (and often social media-based) 'shaming' of firms that are seen as 'exploitative', have the further effect of scaring firms off the idea of employing what may be seen as relatively low-wage and therefore often entry-level labour. This fear, exacerbated by already low investment levels, in turn serves to underpin South Africa's very low levels of labour market absorption. Far from protecting the most vulnerable South Africans from exploitation, the consequence of South Africa's labour regulatory regime is often to exclude poor people from the most important avenue to social and economic advancement … and the dots back to the ANC's electoral performance connect themselves.

Our advice is that market access needs to be simplified by, for example, a system of private voluntary contracts, so that unskilled people can get onto the first step of the labour market ladder where they will learn the skills denied to them in South Africa's weak school system and earn the income that will rise to rival and then exceed their welfare income as their skills and therefore productive capacity grow.

Reforms to all three areas of policy are necessary if South Africa is to draw the investment to make possible the growth which will, in turn, lead to higher levels of employment. This is especially true for small and start-up businesses. Large firms can to an extent overcome even serious policy obstacles, or pass the costs onto consumers, and may even, perversely, exploit bad policy to freeze out smaller competitors.

Yet, even though the case for reform is compelling, we wrote earlier this year in the media that, "all three areas of reform attract needless controversy through … the fallacious argument that reform would advantage only the elites in society and further disadvantage the poor".

South Africa's own track record of the past 20 years, and the correlations between investment and growth and living standards and popular confidence in the ANC that underpin that record, dismisses more powerfully than anything else the fallacy that there is a binary trade-off to be made in policy between the interests of the established middle classes and investors on the one hand and the poor on the other.

There is a fourth area of reform that relates to education in schools. The single most impactful policy shift the government can make would be to embrace a hybrid schools system combining the best elements of charter, contract, and voucher schools – it does not matter which – that has the effect of giving parents far greater influence over the management of the schools their children are in. Communities must own their schools and run them as they see fit – to standards set by regulators. Yet the drift of current education policy is in the opposite direction – to reduce parental choice and involvement in favour of dirigisme. It is an approach to policy that may work in other jurisdictions, and in less free societies, but it has not and will not work here. Parents can be trusted to make better decisions about the future of their children than bureaucrats and politicians. No less a figure than a former minister of education made this clear when the opposition called her out for sending her children to an independent school. Her response, quite rightly, was that it has nothing to do with politicians how parents decide to educate their children. The government must afford all parents that same privilege.

Match that change in education policy with the very welcome idea announced by Mr Zuma in December, that qualifying children from poor households will not face financial exclusion from higher education, and South Africa's education outcomes will become much better very quickly. It is quite mad that a country that talks so much about empowerment will maintain a status quo in which, year after year, universities, and the politicians that oversee them, will turn away thousands of young black people who, if given the chance, would help to build the country. That there has been any criticism of Mr Zuma's announcement reveals a remarkable ignorance of the force for good that his proposal will be.

When we are asked why necessary reforms are not adopted, our answer is firstly that policy makers are unlikely to move against the drift of popular media opinion (as distinct from public opinion) – even if the long-term benefits of reform are apparent. A senior politician, for example, asked us how to square our proposals with the 'revolutionary agenda' of his party – an agenda that finds much favour with mainstream commentators and many newspapers. It is not difficult, but ultimately of little use, to convince a politician of the need for reform if he or she cannot at the same time be convinced that policy reform will be met with immediate media and commentator adulation.

We take that answer further to say that a necessary step towards reform, and in direct support of those who might take reformist decisions, is to invest more time and money in tackling, in public, the fallacious arguments that underpin the current policy malaise in the country – or, in fewer words, to fight and win what Thabo Mbeki understood so well as the battle of ideas. The fallacies that empowerment policy as currently practised is the only effective strategy for ensuring meaningful black economic participation, that current levels of labour market regulation are in the best interests of the poor, that giving more power to officials will finally solve problems of access to high quality schools, and that the property clauses of the constitution are to blame for the dearth of black commercial farmers – must be defeated before reform can be expected to occur. You dare not doubt this.

The battle of ideas, then, is ultimately what the terrain of struggle, to use a revolutionary term, must be reduced to. But the fallacies are very powerful and it does not take much to appreciate that in the end it may be the fallacies, and the grip they exercise, that will perhaps prove the most formidable obstacle to policy reform of all.

Will the reforms happen?

We hold out four scenarios for South Africa.

The first, Rise of the Right, suggests that civil rights in South Africa will have to be eroded in order to create the space for a dramatic state-driven economic reformation to position South Africa as a high-growth emerging market. That model of authoritarian capitalism and a 'guided democracy' will then become the definitive precedent shaping the evolution of similar high-growth economies across the continent. Think Asian-Tigers – just decades later, and in a different global context. Economic growth would return to levels above 6% over the next decade, the unemployment rate would be cut in half, and South Africans would surrender civil liberties for the promise of prosperity and stability.

The second is the Tyranny of the Left. Poverty and inequality would feed populist anger and incitement. Property rights will be eroded, opening the way for mass nationalisation and asset stripping at the hands of a cruel political elite. Civil rights and the rule of law will fall away. Investment flight, rapid currency depreciation, a multi-year recession, and hyper-inflation will erode all the progress the country has made – before triggering a cataclysmic drop in living standards.

The third is the Break-up of South Africa. Here, an out-of-touch and corrupt government would grow ever more distant from South Africa's people. Counter-productive policy would undermine investment and entrepreneurship. The fiscal deficit would deepen and service delivery, public education and healthcare would suffer as the government's coffers run dry. Repelled by their politicians, South Africans would withdraw into enclaves – some prosperous and others urban slums and rural backwaters. South Africa would continue to underperform comparable to emerging markets on almost every measure.

We have been there for the past several years.

But now South Africa has an opportunity to realise the fourth scenario – the Rise of the Rainbow. In this outcome a reformed ruling party, with or without the support of the opposition parties (we had originally considered a coalition built around ANC reformers – but it appears now that ANC reformers may not require such an encumbrance), will introduce a series of reforms to restore the rule of law and position South Africa as a competitive investment destination. Economic growth would exceed 5% by 2029 and the unemployment rate would be cut in half. South Africa would turn from the brink of disaster to become one of the world's most exciting emerging markets.

There is not enough evidence to make the call yet. But within six months to a year we ought to have enough to say whether we are likely to continue in the Break-up or whether South Africa will change paradigms and enter the era of the Rise of the Rainbow.

To make that call we use ten qualitative and ten quantitative measures or markers that will lead us around the scenario game-board – these range from the resignation of Jacob Zuma and the taking of firm action on state capture to labour market reform, the consumer confidence index, and the labour market absorption rate.

But, to be clear, to upgrade the scenario will require the right markers going up on two broad fronts:

- The first front is populated by those markers that deal with accountable governance, parastatal reform, state capture, the rule of law and business and popular confidence – and they look a lot better than they did a year ago.
- But the second front is populated by those that deal with policy reform in areas of the labour market, empowerment policy, property rights, and education – the odds of which hinge, almost entirely, on the balance of forces in the battle of ideas.

If we make the upgrade it means we will be confident that economic growth rates will rise to around 4% by 2024 and to over 5% by 2029. The unemployment rate will fall to below 15% over the same period. South Africa will quadruple the number of young people passing maths in matric. There will be no doubt about property rights or the rule of law.

*** Frans Cronje is a scenario planner and heads the Centre for Risk Analysis (CRA) at the IRR.**