



## GOVERNANCE

# The good, bad and ugly of state failure

New technologies make it increasingly possible for the private sector to step in where a government fails. But this creates its own set of problems.

Even Adam Smith, the father of economics, believed that a strong state is a necessary, if not sufficient, precondition for a growing economy. As Smith wrote, the state must “administer justice, enforce private property rights, and defend the nation against aggression”.

Many stop reading Smith there, believing him to be a proponent of limited government. This is not entirely fair. As Jacob Viner pointed out in 1927 already, the *Wealth of Nations* also include references to the state's obligation to regulate financial markets, educate youth, protect temporary monopolies on patents, and “erecting and maintaining certain public works and public institutions intended to facilitate commerce”. It is therefore just not true, concludes Viner, that Smith was a doctrinaire advocate of a laissez-faire system.

But what happens when the state does not fulfil its duty? What happens when – despite the intention to do all of these things – the states' capacity to deliver these services is weak or non-existent?

To some extent, this is what has happened in South Africa. Our education system is a mess. Thousands of South African kids attend a school each day where the teachers are unskilled, demotivated and often absent; where the facilities are dilapidated and textbooks missing; where school principals battle a limited budget, poor information management, almost no parental support and work in unsafe conditions.

Our public health system, as a recent news report coined it, “teeters on the verge of collapse”. It is estimated that there are 37 000 vacant positions, despite the fact that medical professionals struggle to find employment.

Crime is a major issue our police force cannot seem to bring under control. Prison cells are often filled beyond capacity. We have become used to power outages, and increasingly find our taps dry. A lack of government service delivery is one of the major reasons for protests across the country.

What to do? One option is to sit back and wait for the government to fix itself. True, the democratic process allows each of us to vote every five years for a party we hope will represent our interests better. If the incumbent party does not deliver the services we expect to see, we should choose new leadership. But it is a slow and fuzzy process. Humans are not, in contrast to what economists long believed, perfectly rational beings, making decisions that optimise their own self-interest. We are emotional. We trust charismatic politicians, especially the ones that lie often.

We are waiting for Godot if we rely only on the political process.

An alternative is to vote with our feet and move to greener pastures. This has happened internally in South Africa already, as thousands of migrants move from the former homelands to the metropolises of

Johannesburg, Pretoria and Cape Town. Urbanisation is a phenomenon that will only speed up as the disparity between the urban opportunities and rural doldrum grows.

It is not only local migration. More and more South Africans, as *The Economist* recently alluded to, are emigrating. But for most of us without a second passport or thick wallet, that option is not on the table.

So, what are our options? One alternative is the market, flaws and all. We see this happening already. Private firms like **Curro** are quickly filling the void left by the failing school system to service middle- and higher-income clients. Those who can afford it use excellent private medical facilities. Many of South Africa's prisons are privately run. The number of active private security officers in South Africa is nearly double the size of the South African Police Service and South African National Defence Force combined – it's a R45bn industry.

For long, the state could be the only provider of most types of infrastructure. This is because such infrastructure (also known as public goods) have two properties that make its private provision difficult: it is non-rival and non-excludable.

But better technology makes older forms of infrastructure redundant. Natural monopolies – like electricity generation – has given way to competition from alternative sources of energy. Now we can each use solar panels on our private homes

instead of having to rely on a national source of electricity generation. This allows the private sector to compete in industries that were formerly only the domain of the state.

That is great. It creates opportunities for bright-eyed entrepreneurs to service clients unsatisfied by government services. But it does not, as many fans of the free market would argue, mean that government should simply get out of the way. The market – especially in industries which are prone to the formation of

oligopolies and monopolies (in other words, low levels of competition) – can also fail. Here, failure would mean higher prices and poor quality in the name of efficiency.

Think of prisons: they are not just places where sentenced individuals' liberties are removed. They are places where remediation can (should!) occur – but such practices are costly, and unlikely to be encouraged in a private prison wanting to maximise profit.

**A thriving economy requires a creative and competitive private sector, one where new technologies can help entrepreneurs to enter industries where the state used to play a dominant role.** But government must come to the party too, ensuring, through regulation, a competitive and fair business environment to prevent market failure.

A small but highly competent government is the ideal. South Africa, at the moment, has exactly the opposite. ■

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