By Johan Fourie

GOVERNANCE

Ramaphosa's number one challenge: getting rid of patronage politics

There is sufficient evidence that patronage is a terrible system. If not addressed at all levels of South African government, chances of growing the economy to where it needs to be, will remain slim.

President Cyril Ramaphosa is on the investment offensive. Because the South African economy is stalling, he is desperate to attract investors who will create jobs and boost incomes. One way to do that, he believes, is by hosting summits; a Jobs Summit and an Investment Summit could be just the thing to invigorate investor appetite for South Africa.

But it's a hard sell. Not only is global economic growth on the wane, South African internal policies and politics are not creating the stable, low-risk environment that investors crave when the returns are unlikely to be double digits.

Whatever the merits of land redistribution, calls for what seems to be an unnecessary constitutional change to allow expropriation create uncertainty. An inability to reduce crime – the one issue that affects all South Africans – makes our country less attractive as an investment destination. *The Economist'* recent article on Cape Town's high murder rate, for example, will undoubtedly hurt tourism. And although Tito Mboweni's appointment seems to have satisfied markets, it is never a good sign to have a revolving door for the second-most important office in government.

Guo Xu
Assistant professor in business and public policy at the Haas School of Business at the University of California, Berkeley

Photo: www.guoxu.org

All of these ills are rooted in our public sector incompetence – the result of a bureaucracy built on patronage rather than the efficient provision of public services – that makes doing business an expensive and frustrating exercise.

This is the one thing Ramaphosa's government must begin to address if we are to create the right conditions for growth.

As Guo Xu of the Haas School of Business at the University of California, Berkeley notes in an upcoming *American Economic Review* paper: "State capacity is fundamental to development and growth. Bureaucrats are a key element of state capacity: they embody the human capital of the state and are responsible for the delivery of public services and the implementation of policies. Understanding how to promote and incentivise bureaucrats is central to improving organisational performance."

For much of human history, bureaucrats were appointed through patronage. The way you moved up in society was mostly the result of who you knew rather than what you knew. Even in the US today, more than 8 000 federal positions are still allocated "at the pleasure of the president" (if, of course, he is competent enough to do so).

It is not only in government that you find patronage, we often see family ties and personal connections play an important role in new board appointments.

Theoretically at least, patronage can be a good thing. Loyalty to the superior may incentivise subordinates to not shirk their work. But patronage can also be bad for organisational performance, as favouritism may disincentivise subordinates to work at all because they have the protection of their superior.

For long, though, it was difficult to prove which of these two outcomes are most likely to occur. Xu, however, has found a novel approach to do just that. He transcribed thousands of personnel and public finance records of the British Colonial Office during the late 19th and early 20th centuries. He then measured how closely governors in the colonies are connected to the Secretary of State, the official in England who appointed them.

He shows that governors connected to the Secretary – as family members, members of the same party, or even as school buddies – enjoyed higher salaries through the promotion to higher paid and larger colonies. However, this is only true for the period before the Warren Fisher Reform, a policy that changed the appointment process from patronage to meritocracy.

It is not only that these appointees (before the Reform) earned higher salaries. They also performed worse. Xu finds that a colony's public revenue performance declined in years when a governor with close ties to the Secretary of State rules.

"This is consistent," says Xu, "with the interpretation that patronage exerts a negative effect on the performance of socially connected governors. Consistent with the previous result, the fiscal performance gap disappears after the removal of patronage."

The lesson? Patronage is bad for performance.

A new National Bureau of Economic Research (NBER) study sheds some light on why this might be. Three economists use very detailed information, including firm-level balance sheet data, social security data, patent data and detailed data on local elections in Italy (between 1993 and 2014) to show that firms that are more connected to politicians are likely to be less productive.

They identify a leadership paradox: "When compared to their competitors, market leaders who are more likely to be politically connected, are much less likely to innovate. In addition, political connections relate to a higher rate of survival, as well as growth in employment and revenue, but not in productivity."

It seems to work like this: when a firm has strong political connections, they use these connections, legally or illegally, to get preferential contracts, tariffs or other regulations that allow them to beat the competition. When a firm has few or no political connections, they are forced to innovate to be better than the competition. Ultimately, more innovative firms are more productive and dynamic.

Patronage, the evidence shows, is a terrible system. But it's become endemic in the South African state. Without attempts at addressing a patronage system that pervades all levels of government, no investment summit will push SA's economic growth to where it needs to be. ■

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