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The Urgent Need of Creating a State in South Sudan[1]

EXECUTIVE SUMMARY

1. **Durable peace is impossible in the absence of a coherent state;**
2. **Dependence on resource rents—especially oil—prevents the creation of a coherent state;**
3. **A functioning state requires a dialogue between those who govern and those who are governed;**
4. **This necessary discourse is called the citizenship exchange;**
5. **A second requirement of the coherent state is fiscal leveraging from taxation;**
6. **When citizens pay taxes, they acquire leverage over their government to address pressing obstacles to improved livelihoods;**
7. **This aspect of leverage is called the tax bargain;**
8. **The tax bargain forces governments to pay attention to the interests of citizens;**
9. **The dynamic aspect of the tax bargain assures governments that tax proceeds increase as household incomes grow.**
10. **The tax bargain makes sure that governments have a political and economic interest in rising household incomes.**

On July 9, 2011, South Sudan emerged from its long civil conflict with Sudan and became an independent nation. Now, a decade later, it is still not a state.

In this Policy Brief, we explain why South Sudan is not yet a state. More importantly, we explain why peace is impossible until the Government of South Sudan (GoSS) is able to provide promising livelihoods to its people. Only then will the severe economic paralysis give way to a promising future for all its citizens. While constant demands for peace are understandable, that same commitment and energy should instead be directed toward state creation. Peace is impossible if plausible livelihoods are impossible.

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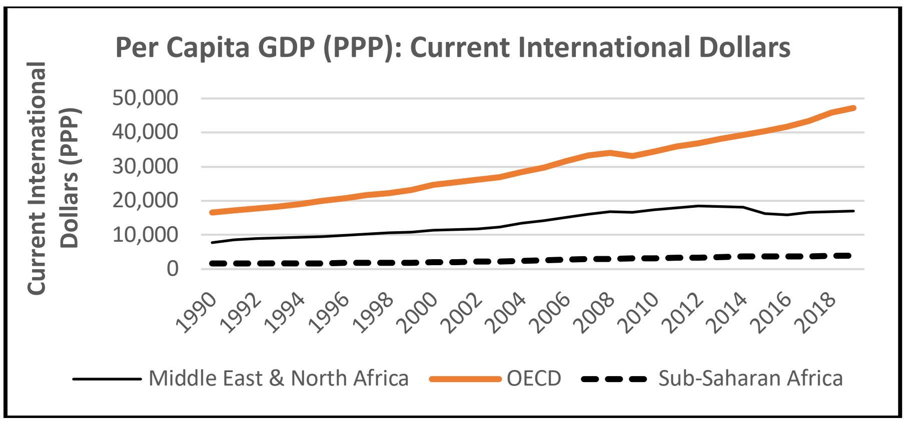
I. The Urgency of States

Once the scourge of colonialism had been eliminated from Africa, there was reason to believe that economic progress would soon emerge and gradually lift household incomes. What is called "development" would not be far behind. The International Monetary Fund (IMF), the World Bank, the U.N. Development Programme (UNDP), and various national development agencies—the U.S. Agency for International Development (USAID), the Norwegian Agency for Development Cooperation (NORAD), and the British Department for International Development (DFID) —were all dedicated to that desired outcome. Figure 1 reveals that progress has been disappointing.



Source: World Development Indicators.

Figure 1

Curiously, most experts failed to realize that successful economic development first requires the existence of a coherent state. Independent nations can be established by the absence of colonial occupiers. This is clear from the experience in South Asia and across the African continent. However, the burden of creating a coherent—well-functioning—state requires great care, and much hard work. Unfortunately, despite over five decades of independence, a number of African nations have struggled to become functioning states. The evidence in Figure 1 is clear. Per capita income growth has been anemic across the Continent. The reason is obvious—income growth and economic development are impossible in the absence of a coherent state.

This historical record should send a stark warning to every citizen of South Sudan. It is urgent that the youngest country in Africa must avoid a similar fate. Five decades from independence—in 2061—will South Sudan have followed the dashed line in Figure 1? Or will the country succeed in creating a coherent state?

II. What is a Coherent State?

A coherent state is characterized by two core attributes. First, it must become a ***communicative space*** within which citizens and their government agree to work together to bring about peace and plausible livelihoods. In other words, a coherent state is a domain over which citizens must engage with their government concerning desired services that will enable promising livelihoods. At the same time, the government must be engaged with the citizenry scattered across the full spatial extent of the nation.

One of the residual defects of colonialism is that governance focused on exports of a few commodities, thus bypassing and ignoring the vast majority of individuals who were engaged in a variety of rural pursuits. In essence, millions of individuals were irrelevant to the colonial enterprise. Their livelihoods were impertinent to the resource exports at the heart of colonial domination. It is even worse in Africa. The British colonialism of South Asia was an explicit governance arrangement in which much attention was devoted to agriculture as both a food source, but as a supplier of cotton for the Lancashire mills. The colonial enterprise entailed an entire structure of local courts, tax assessors and collectors, etc. The need for revenue with which farmers could pay taxes led directly to the cash economy for agricultural production—leaving the old barter and self-sufficiency behind. When the British finally left, there was the blueprint of how to run an economy. Many irrigation systems retained those practices for decades after colonization ended in 1947. Even today, India’s railroads are pointed to as remnants of “British order and reliability.”

By way of contrast, most colonialism in Africa—with several prominent exceptions—was an absentee undertaking, very often motivated by the desire to keep other European powers marginalized. The famous “Scramble for Africa” of the Berlin Conference (1884-1885) was simply a grasping for territory to satisfy “global” aspirations. There was very little appetite or ability to create coherent administration. And “governance” was out of the question.

If a real economy in these former un-governed colonies is to be established, the lingering aspects of the flawed colonial past must be overcome. One of the ironies of post-colonial governance is that modernist ideas of political arrangements created presidencies and legislative bodies modeled after the governmental structures of colonial powers. This imposed ***appearance*** of democracy simply created a professional class of new governing elites to replace what de-colonization had swept away. But the façade of democratic governance has generally failed to engage the full energies and capacities of populations that remain largely rural and at some distance from the center of power in capital cities. There remain millions of missing voices and views—hidden behind the ***mask of citizenship***. They are there—unnoticed and silent.

The most effective way to overcome the residual effects of this colonial history is to recreate the essential discursive interaction that had traditionally bound leaders and individual citizens in a durable conversation about present actions as they relate to desired outcomes in the future. We see remnants of this discourse today in the on-going tension between “traditional” leaders and the new governmental structure of an independent South Sudan. Re-establishing voice and accountability throughout South Sudan can be understood as creating the ***citizenship exchange***.

At the present time, the only conversation in South Sudan seems to be an urgent wishing for peace. Unfortunately, peace is not something that can be wished for. Rather, peace—the absence of conflict—is a conscious decision to stop arguing over who shall control a nation’s wealth. Peace is too important to be dismissed as mere “politics.” ***Peace is economic policy by conversation rather than by force***.

The second necessary attribute of a coherent state is to grasp the importance of ***mutual leverage***. This idea is at the heart of the ***social contract*** between citizens and their government. The instrumental core of this *contract* is that individuals accept the obligation of a tax payment based on household income. Payment of this tax generates an explicit obligation on the part of the government to listen to the hopes and concerns of the citizenry. <u>This obligation constitutes leverage</u>. An additional aspect of this leverage is that the government accepts the obligation of honesty, transparency, and accountability in how those tax proceeds are spent for the benefit of the citizenry. Notice the explicit instrumentalism here.

Taxation of income introduces a fundamental dynamic element into governance. The government and the citizenry are tied together so that the fate of one party depends on the fate of the other. As individual incomes grow, tax revenue to the government grows. This creates an incentive for the government to engage in efforts and initiatives to help household incomes grow. As the economy improves—both through individual initiative and through essential programs from the government—personal incomes rise. With this virtuous circle set in motion, the process of economic development can get underway. Adherence to the social contract sustains the virtuous circle.

This arrangement is called the ***tax bargain***. Notice that leverage also flows in the opposite direction. The government, through its ability to direct technical and financial assistance throughout the countryside, can exert profound influence on which activities shall benefit from such help. This ability then sends signals to individuals to dedicate themselves to such activities—and the economy grows. No successful country in the world has achieved economic growth and social development in the absence of careful nurturing and support from its government. The reciprocal leverage of the social contract is self-enhancing.

III. The Wrong Kind of Leverage: An Oil Economy

Many African governments do not collect income taxes from their citizens. They rely, instead, on excise taxes levied on exports—timber, minerals, and a few agricultural products. An extreme example of this problem is seen in the FY2020/2021 budget for South Sudan. We see that oil revenue accounts for 84 percent of total government revenue. This is problematic under the best of circumstances. For fragile countries like South Sudan, it is dangerous. These resource revenues are divorced from any accountability to the citizens. More seriously, they arise from an enclave economy that is completely segregated from the real economy of South Sudan—which is minimal.

The danger arises from the familiar curse of oil—wage distortions, and serious effects on foreign exchange markets. The evidence seems clear that countries with substantial oil revenues tend to favor consumption expenditures rather than productive investments. Often, inefficient subsidies and bloated public-sector payrolls are the expected result of oil revenues. As mentioned elsewhere, oil revenues go directly to the government without passing through the hands of the citizens, as is the case with tax revenues. As a result, governments in oil countries are less accountable for public expenditure, which leads to inefficient spending.

A more serious problem concerns the challenge of ***revenue mobilization***. Specifically, there is no revenue source at the local/state level. As a result, these jurisdictions must beg the central government for funds to pay for schools, roads, water supplies, communications facilities, libraries, etc.

However, competing demands in Juba—government salaries, military expenditures, assorted costs of government—leave very little revenue for pressing economic and humanitarian needs across the vast rural interior of the country. But there is a more serious problem from the existence of enclave economies. This necessity for local officials to solicit the central government for urgent funding needs presents a dangerous mechanism for political graft and corruption. The political reality of compromised revenue mobilization undermines economic growth in rural areas.

Notice that oil exporting countries such as South Sudan have become ***economic hostages*** of the world's oil traders. First, oil exporting countries have little voice in setting price they will receive for their oil. Economists would note that individual oil exporting countries are mere ***price takers***. South Sudan recently learned the severe hazards of being a price taker. Moreover, In addition, the arrival of oil revenue serves as a national sedative. Suddenly, there is easy money available and so the government is spared the difficult work of actually getting a national economy established and functioning. But of course the world oil market could collapse next year, as it did in July of 2014, and then yet again in the Spring of 2020. When there is no backup economy, economic despair is immediate, and often profound. We see that oil exporting countries are economic hostages—helpless pawns in a world that cares little for each single oil exporter.

And we see, therefore, the necessity of the tax bargain. It liberates oil exporting nations from their victimization as hostages, and it solves the serious problem of revenue mobilization across the geographic extent of the nation. When central government revenue is dominated by resource rents (oil, minerals, timber) the production of that revenue is highly location-specific. This situation exposes a country's major source of revenue to the dangers of disruption from civil unrest and localized predation. The existence of resource revenue drives a destructive wedge between citizens and their government. When governments are funded by resource (oil, minerals) revenue, they have little interest in the financial well-being of the citizenry. A general tax on household income does not lend itself to such threats.

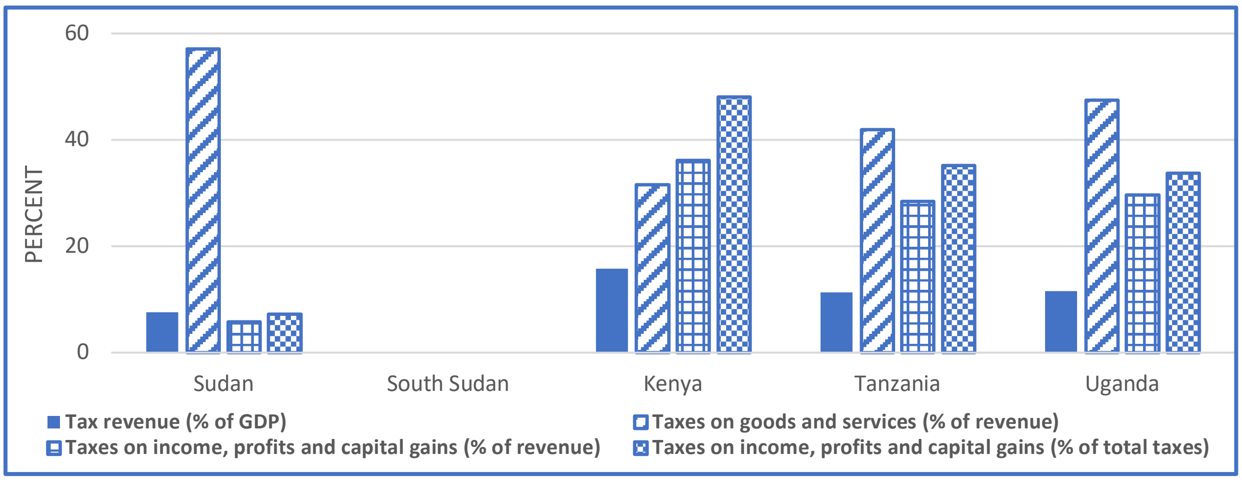
IV. The Problem of Governing Without Leverage

Governments without tax revenue are in the hopeless situation of trying to govern in the absence of leverage. It is easy to create an impressive roster of ministries and sub-agencies. The idea is to convey the image of governance. We see an example of this in the impressive list of thirty five Ministries of the Revitalized Transitional Government of National Unity (RTGoNU) created by the Revitalized Agreement on the Resolution of Conflict in the Republic of South Sudan (R-ARCSS). The supposed purpose of these Ministries is to serve the needs of the citizens of South Sudan. A brief sample clarifies this functional role—Ministry of Agriculture and Food Security; Ministry of Environment and Forestry; Ministry of Water Resources and Irrigation; Ministry of Higher Education, Science, and Technology; Ministry of Health; Ministry of Gender, Child and

Social Welfare; Ministry of Youth and Sports; Ministry of Energy and Dams; and Ministry of Roads and Bridges.

These ministries—and all of the others—exist to support specific activities, and to make South Sudan more prosperous and more equal. Coherent governance requires a relationship between each agency and its programmatic constituents. In functioning states, each ministry would have a specific programmatic budget that would enable staff members to collaborate with individuals in the appropriate sectors. In a federal system, that collaboration would include state-level employees of the appropriate agencies across the entire country. Notice here a nested network of programmatic collaboration from the central government down to individual citizens at the payam or boma levels.

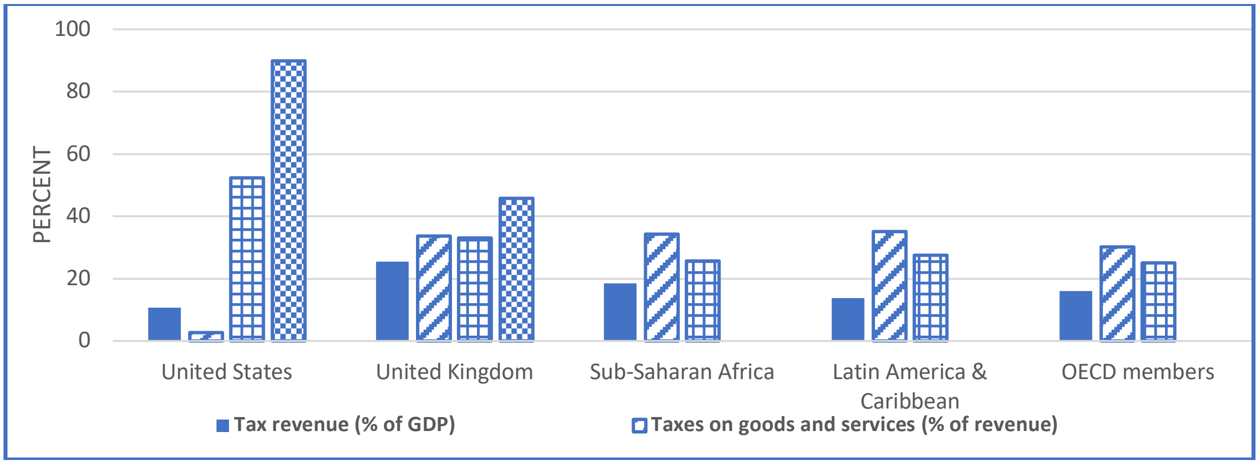
But of course in the absence of a revenue basis by which the people's work might be done, we observe in South Sudan the ***façade of government*** without the necessary ***functions of governance***. In the absence of taxation, governance is impossible. Consider Figure 2.



Source: World Development Indicators.

Figure 2. Four Aspects of Taxes in East Africa (average 2015-2019)

Figure 2 reveals the challenge of trying to govern in the absence of taxes—the problems brought on by the lack of leverage. South Sudan stands out among its near neighbors. Most notably, there seems to be a complete absence of taxation. South Sudan's nearest neighbors levy taxes in goods and services (a "sales" tax), and they levy a tax on current income, profit, and capital gains. Figure 3 shows similar taxation results for five alternative aggregations of countries.



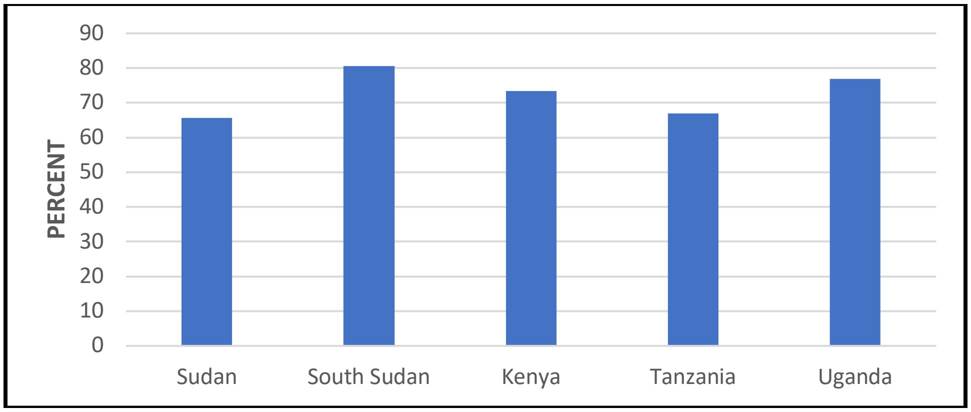
Source: World Development Indicators.

Figure 3. Four Aspects of Taxes in Other Jurisdictions (average 2015-2019)

We see that across a wide range of countries, taxation is a core aspect of creating a functioning system of governance. Fiscal leverage is a profound instrument of a functional state. However, it must be understood that taxation does not assure effective governance. But it is equally clear that the complete absence of the fiscal leveraging via some form of universal taxation renders effective governance almost impossible.

As we saw above, governance is about discourse—a system of dialogue between those who govern and those who are governed. A coherent state was presented above as a ***communicative space*** within which conversations occur. They can be conversations about how to improve cereal yields, about how to market vegetable produce, about how to deal with diseased cattle, about how to mobilize more effective pest control, about how to get a new roof on the local school building, about how to bring a water-system to the village, or about how to improve the local health clinic. Each of these activities presumes an instrumental dialogue—a problem-solving discourse—so that local livelihoods are improved. That is the essence of governance. It is the essential nature of a coherent state.

Notice that an emphasis on dialogue between those who govern and those who are governed presumes an ability to come into personal contact with the agents of government. Effective governance is impossible when there is no opportunity for communication. One stark reminder of the problems of the "notional state" is a locational mis-match between where most people live and seek to make a living, and where most government employees work. As a reflection of this consider Figure 4. Here we see an indication of where people in East Africa actually live. Of course this is well-known, even if the exact percentage is somewhat vague. And we see that South Sudan is the most heavily weighted toward rural livelihoods of the five countries under discussion here.



Source: World Development Indicators

Figure 4. Percent Rural Population (average 2015-2019)

While data are not available on the share of national government employees who live and work in rural areas, those familiar with the region do not need to be reminded of the capital-centric nature of African governments. Indeed, this is yet another aspect of the nature of African colonialism. External administrators saw scant reason to extend any aspect of governance (or government) to the rural hinterland. Therefore, a reasonable hypothesis would be—while we wait for definitive data—that the vast majority of government employees are to be found in Khartoum, Juba, Nairobi, Dar se Salaam, and Kampala. Rare would be the government employee out in the vast rural provinces of East Africa.

An interesting perspective on this issue can be found by considering two quite different places from East Africa—the United Kingdom and the United States. In the United Kingdom, the share of government employees ***outside of London*** resembles the share of South Sudanese who live outside of Juba—80 percent. In the United States, the proportion is almost identical. Only 21 percent of federal government employees are in the capital city of Washington, D.C. The vast majority of government employees in both countries are scattered across the geographic extent of each country.

V. Implications for The Effective State

Coherent and meaningful governance requires opportunities for frequent dialogue between those who govern and those who are governed. It is not sufficient to create a governmental structure stocked with well-meaning employees if those individuals are isolated from the daily struggles of crafting a livelihood across the vast rural stretches of South Sudan. The logic of governmental service is that those individuals so employed exist for but one reason—to serve the citizenry in their daily battle to thrive and survive.

But dialogue, while necessary, is not sufficient. An effective—a coherent—state also requires the profound instrument of mutual leverage. The tax bargain provides that sufficient ingredient.