DISCUSSION PAPER 05/2020

# South Africa's Greatest Economic Adversary ... Itself

## An Argument for Tough Choices and Transactionalism

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THE BRENTHURST FOUNDATION

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## An Argument for Tough Choices and Transactionalism

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Published in July 2020 by
The Brenthurst Foundation

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Layout and design:
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A member of the advisory board of the Royal United Services Institute, he is the author of the best-selling books *Why Africa Is Poor* and *Africa's Third Liberation*, and most recently, together with President Olusegun Obasanjo *Making Africa Work: A Handbook for Economic Success*. In 2018 he completed a second stint as a visiting fellow at Cambridge University, writing this time a book on the state of African democracy, which was published as *Democracy Works* in 2019. *The Asian Aspiration: Why and How Africa Should Emulate Asia* has followed in 2020, which identifies the relevant lessons from Asia's development and growth story.

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We acknowledge the contribution of **Richard Morrow**, the Machel-Mandela Fellow at the Brenthurst Foundation.

The American physicist, J Robert Oppenheimer, sometimes credited as the 'father' of the atomic bomb, said of the challenges and changes of that age that 'the world alters as we walk in it'.[1]

He might well have been speaking of the world after Covid-19.

The pandemic, and effects of the ensuing lockdown have disrupted the global economy, accelerated developments, amplified contradictions and challenges, and forced rapid adaptation.

These events might encourage longer-term improvements to the way the world works. This will depend on the way states respond.

There is reason to believe that demand consumption will speed a return to normal economic activity, sooner rather than later. After all, people remain sociable creatures, with appetites and needs.

But there are some forces driving a different economy to that pre-Covid.[2]

## Ten Years' Change in Three Months

The past three months has seen remarkable and rapid changes, not least to the role of technology, driving a digital transformation which has leapfrogged ten normal years. That comes, however, with costs and trade-offs, not least to jobs – or at least the way we go about work, and the contrasting abilities of some to access this new world. Data is no longer a luxury, but a lifeline, the new oil of commerce.

*Information, misinformation and disinformation are tools in a war such as Covid, where narratives can be quickly shaped and simultaneously transmitted for narrow ends*

As we are drawn closer through digital integration, we are increasingly fragmented, both in terms of patterns of work and access to each other and to opportunity. Connectivity is not uniform; 3.5 billion people worldwide and three-quarters of Africans lack internet access. According to the International Monetary Fund: 'Countries in sub-Saharan Africa, followed by many in emerging and developing economies in Asia, are among those with the lowest access to the Internet despite being world leaders in mobile money transactions. There is also a large variation in Internet connectivity by firms in sub-Saharan Africa – only about 60% of businesses use email for business compared to about 85% in Europe and Central Asia.'[3]

It's a quick solution for some. But it denotes the difference between an online future and a digital handicap.

The role of connectivity has built on and accelerated existing trends. The combination of the pace of digital communications and the spread of

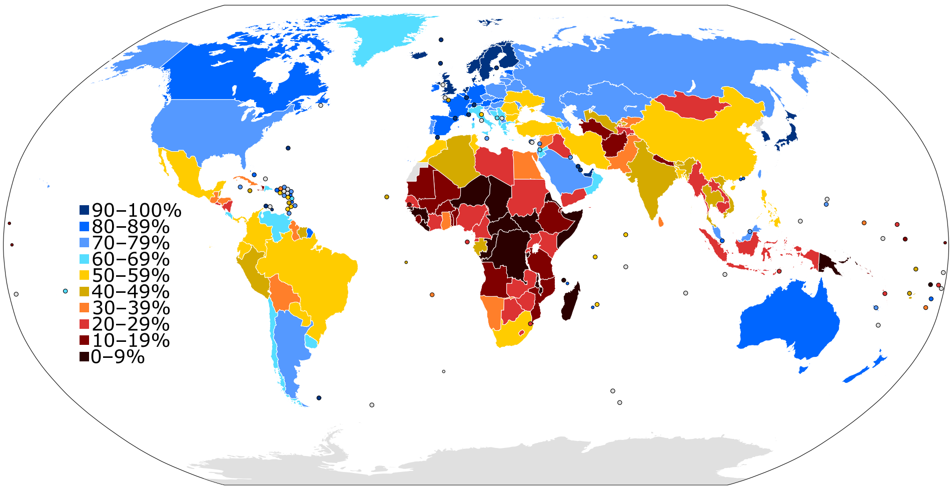
1 'Prospects in the Arts and Sciences', J R Oppenheimer, *Finding Patterns*, 8 January 2014 at https://www.findingpatterns.info/scrapbook/prospects-in-the-arts-and-sciences-j-r-oppenheimer.html.

2 This draws on the Ditchley Summer Project – an intensive series of talks, workshops pulled together on a virtual platform by Ditchley to help people think through the impact of what has happened; renew thinking; and most importantly get ready to act. See https://eventmobi.com/ditchleysummerproject/.

3 Mercedes García-Escribano, 'Low Internet Access Driving Inequality', *IMFBlog*, 29 June 2020 at https://blogs.imf.org/2020/06/29/low-internet-access-driving-inequality/.

sources has wrought other challenges, as flows have outstripped the capabilities of traditional filters and fact-checkers. This has contributed to sowing confusion, reducing faith in information and governments. And it has disintermediated politicians, no longer having to be reported, but now capable of reaching the public directly.

**Internet Users in 2015 as a Percentage of a Country's Population**




**Source: International Telecommunications Union.[4]**

Information, misinformation and disinformation are tools in a war such as Covid, where narratives can be quickly shaped and simultaneously transmitted for narrow ends.

Speaking truth to power has never been a popularity contest, but an essential check and balance on political authority. That has been altered by the digital transformation. In an environment where the checkers of facts are themselves under financial pressure, their business models having been eroded by the internet and decline in advertising, there is a risk of centralisation of sources, a shrinkage in regional reportage, and the creation of a reporting habit where rhetoric and opinion eats news for breakfast.

Connectivity is, of course, more than just information, but an artery for contemporary commerce. It is also only one aspect of the previously obvious and now yawning gap between developed and developing economies. Another concerns the fiscal and monetary resources these two worlds have available to buffer the crisis. Whereas US$11 trillion has been committed globally to stimulus packages, the African share is under 0.3%.[5]

Access to connectivity hints at one heightened global tension. There are others.

Systems of regulation and ownership of information have yet to match the reality of the flow of data. Questions of privacy, security and vested commercial interest are at the heart of this, at least in the West. Covid has brought new business opportunities, but also new risks, including protection of healthcare information, institutions and science, where the ability to mitigate risk has not

4 https://upload.wikimedia.org/wikipedia/commons/9/99/InternetPenetrationWorldMap.svg

5 Calculated using stimulus spending data from nine African countries. Data available at https://www.imf.org/external/datamapper/FM-covid19.pdf.

always kept apace with the speed of change. And the security imperative has to be balanced against the temptation of surveillance capitalism and technical hubris.

There are other tensions. The UK's decision in July to opt out of the network deal with Huawei on security grounds poses the question, too, whether we could see the start of a dual system of tech preferences between East and West, the distinction between a Google and a Baidu world, for example.

Can, and should, the world run on different digital systems, and at what costs?

## Insiders, Outsiders and Elections

The role of digital inevitably raises the role of outsiders in domestic politics, specifically in democratic elections, and particularly in the United States. What is unclear is how Iranian, Chinese and Russian hackers among others will target people and systems; whether this will be through indirect influence operations or more direct digital manipulation. What is more certain is that they will do so. Already President Trump has spoken of the November event as 'the most corrupt election in the history of our country',[6] presumably opening the way to a legal challenge.

*The US retreat from agreements and multilateralism reflects in the approach to dealing with Covid, as a national issue rather than a shared, global challenge*

This environment would seem to favour closing down the internet in the style of China's Great Firewall, of preferring liberalism over globalism, another nascent tension.

But liberal societies demand and thrive on open contests.

All of this is going on while other more prosaic security differences have continued to develop during the pandemic, centering around China and its role in the South China Sea, the clash with India and the imposition of a new security law in Hong Kong. There are others, including North Korea, cutting off communications with the South, the unexplained explosion at an Iranian nuclear facility at Natanz on 2 July, and the collapse of the oil price and the consequences for regime stability among some suppliers.

The world has not stood still while the pandemic has taken hold. It is also likely that China, among others, would have noted exactly Western vulnerabilities to the spread of a virus such as Covid-19, no matter the origins of the current pandemic.

None of this is helped by the US disengagement from the international system, and its increasingly political dispensability as a consequence.

Washington's withdrawal from the Trans-Pacific Partnership trade agreement at the start of President Trump's term has been followed by opting out of the Paris Agreement on the climate, the 1987 INF nuclear arms control treaty, the Iran nuclear deal, the Human Rights Council in the UN, the protocol to the Vienna Convention on diplomatic relations, the Open Skies surveillance treaty, UNESCO, the UN's Palestinian relief agency and most recently the World Health Organisation, among other treaties, institutions and agreements that the United States once helped to establish.

6 'Trump: This Will Be Most Corrupt Election In The History Of Our Country', *RealClear Politics*, 24 June 2020 at https://www.realclearpolitics.com/video/2020/06/24/trump_this_will_be_most_corrupt_election_in_the_history_of_our_country.html.

No matter how imperfect these arrangements are, and the frustrations in dealing with them which transcends Trump's term in office, no viable alternative apparently exists. Instead this has created a power vacuum waiting to be filled by others. Yet the US remains the largest economy in the world, and the pre-eminent military and tech enabler. The raw power of US-based tech platforms is now on full display.

And for all of its many critics, the US also remains vital to the democratic world as an example as to how to organise government and ensure accountability. (At another level, this situation raises questions about the strategy of external critics in contributing to this situation.)

But more than ever, foreign policy reflects the scale and rhetorical ferocity of political division within the United States itself.

As Abraham Lincoln famously put it, on 16 June 1858, at what was then the Illinois State Capitol, 'A house divided against itself, cannot stand.'[7] In the face of the pandemic, its foreign policy misadventures in the 2000s, the now highest domestic unemployment rate since 1933, simmering racial tensions, and the schisms between the great coastal markets and mid-America, and between urban and rural communities, America has abdicated its global role. But this also reflects a difference in outlook between the foreign and business elites and a chunk of the citizenry, the general bemusement and unhappiness of the former at this retreat into isolation revealing a disconnect with domestic politics.

*Those societies which have done better, so far, in managing the crisis, are those which are characterised by high degrees of trust, between citizens, business and government, which reflects in standards of governance*

The US retreat from agreements and multilateralism reflects in the approach to dealing with Covid, as a national issue rather than a shared, global challenge.

This has resonance in a wider discussion about the extent to which a recovery is pinned on what the state provides, and the market, and the inherent tension between control on the one hand and the inter-relationship between liberty, growth, dynamism, innovation, and openness on the other. This boils down to how to ensure security, not just physical and territorial, but also in terms of health, privacy, the environment and pensions. And at its core is the question: How can we optimise the role of people in the economy?

The stresses produced have surfaced today in the Black Lives Matter movement, one indication perhaps of the growing political mobilisation among younger people. But they may conceivably take different forms in the future, perhaps an anti-wealth agenda, along with a debate about what constitutes fairness, and what sort of security states should best provide and how. At least one might expect greater scrutiny of business and profits, and anticipate a greater debate about inequality, and the role of governments in regulating fairness.

After the war J Robert Oppenheimer used his position as chairman of the General Advisory Committee of the US Atomic Energy Commission to lobby for

7 'Lincoln's House Divided Speech in Springfield', *Newspapers.com* at https://www.newspapers.com/clip/20998823/lincolns-house-divided-speech/.

international control of nuclear power. He was stripped of his security clearance amidst McCarthyism in 1954, and with it his political influence. Speaking truth to power was then, as now, a difficult road.

His speech at Columbia University's Bicentennial the same year explored the paths which connect the different 'villages' in which we pursue work in art and science. He argued for a cultivation of these intimate paths, as an antidote to the superhighways of the mass media which create around us 'a great, open, windy world'.

Oppenheimer might have been speaking of the importance of relationships, compacts and collaboration in the contemporary world.

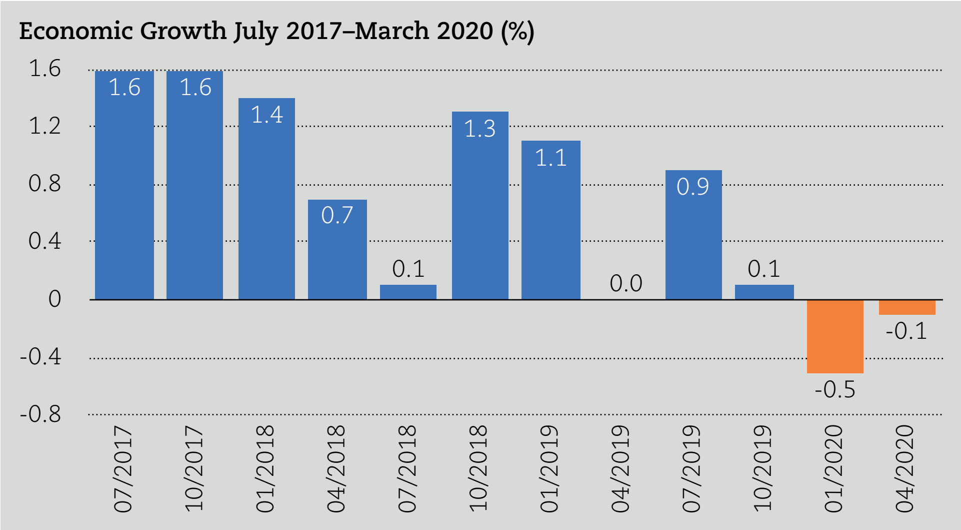
Those societies which have done better, so far, in managing the crisis, are those which are characterised by high degrees of trust, between citizens, business and government, which reflects in standards of governance. Social cohesion is intrinsic to sustainable growth, but is as much an input as an output. In identifying different types of capital – social, human, natural and financial – to drive value creation, the Mars Foundation's *Economics of Mutuality* programme[8] is an example of another benchmark to the 'right' level of profit: not the maximum that can be extracted, but one that is aware of the imperative for inclusive capitalism to be broader than just financial return. There needs to be a shared purpose to make things work in systems which are structured not just for profit, but to tackle problems.

Nowhere is this need for trust better illustrated than South Africa where the economic consequences of the pandemic are on course for catastrophe.

## South Africa: A Fork in the Road

South Africa is at fork in the road when it comes to making the right policy choices – and implementing them.

The economy had already entered a technical recession prior to the Covid-19 pandemic, recording growth of -0.5% in the fourth quarter of 2019 and -0.1% in the first quarter of 2020.

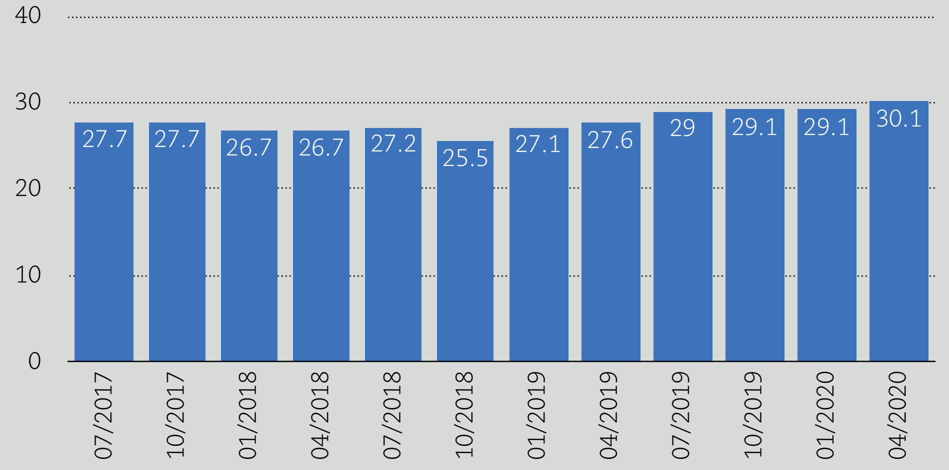



**Source: tradingeconomics.com | Statistics South Africa**

8 See https://eom.org/.

The unemployment rate – narrowly defined – breached the 30% mark in the first quarter before the effects of Covid were registered. According to a study by the Coronavirus Rapid Mobile Survey, some three million lost their jobs between February and April as a result of Covid-19,[9] a number that, while disputed, would suggest that unemployment could surge through half the working population by the broader definition, including those discouraged from seeking work.

**Unemployment Rate July 2017–March 2020 (%)**




**Source: tradingeconomics.com | Statistics South Africa**

There is thus no disguising the trouble that South Africa was in before the crisis. This has been simply accelerated by Covid. Consequently the country is on the cusp of a breakdown: fiscally (with a projected 15–20% deficit, and 80% debt/GDP ratio), socially (with perhaps another 3 million unemployed, bringing the number of jobless to half the population), and in growth terms (falling from its paltry record of 1% for a decade, to as little as -8% in 2020).

It can choose a reform path, which seeks to boldly address its low-growth policy failings and structural constraints. This will be tougher politically than economically.

Or it is can choose the familiar populist path of doubling-down on the state, of increased spending and of attempts to increase state 'capacity' for 'delivery'.

The reform path will be hard. It demands a frank and unflattering assessment of the growth and development record over the last quarter of a century of rule by the African National Congress and its allies and requires the abandonment of some of the economic policy shibboleths which appear to have attained sacred status in liberation mythology.

The statist path will initially be easier, as it's the road on which South Africa has been taking, particularly under President Jacob Zuma, and it offers the dispensing of patronage to the faithful and may even offer some early wins from easy cash, but will end in disaster, a messy, tragic variant of Venezuela or Zimbabwe. The length of the journey is debatable, but the destination is not in doubt.

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9 'Covid-19 cuts SA employment figures by three million, women worst affected – study', *Fin24*, 15 July 2020, at https://www.news24.com/fin24/economy/covid-19-cuts-sa-employment-figures-by-three-million-women-worst-affected-study-20200715.

This road to penury is attractive because ideologues can stay true to their rhetorical path, and when things go wrong, they can blame 'enemy agents' and a hostile world for failure rather than the policies they have pursued.

The belief that the economic laws of nature can be rewritten in the face of mountains of evidence to the contrary all over the world and throughout history is powerful as it is false.

The incentive to default to radical statism is, moreover, strengthened because of the effects of the Covid-19 pandemic which require the state to play a leading role in civic and economic affairs to help constrain the spread of the virus.

This larger role for the state during a time of crisis has awarded politicians more power. They decide when and how people can go outdoors, what they must wear on their faces and whether or not they may return to work. In response to the crisis, they are taking control of things which, in normal times, would fall outside of the ambit of the state.

The trouble is the leap of logic which argues that what is good for fighting the pandemic is good for the economy, leading to the questioning of the last 30 years of globalisation. Prior business models, no matter how successful, public and private, are now up for debate.

At another level, popular support globally for trade and migration has apparently fallen, the seeds being planted before the crisis by growing mercantilism and a language of self-sufficiency, autonomy, independence and sovereignty. Beyond that, there are all manner of debates, not least about the efficacy of lockdowns, and exactly how these should be eased in an increasingly smart and topical fashion.

*The belief that the economic laws of nature can be rewritten in the face of mountains of evidence to the contrary all over the world and throughout history is powerful as it is false*

There can be no gainsaying that the crisis changes things. It will disrupt labour markets, continue to push up levels of indebtedness and limit state manoeuvrability, accelerate digitisation at the expense of some jobs, and maintain unprecedented peacetime fiscal deficits. The crisis is also likely to be easier for advanced economies which have the scope to ramp up spending because they possess the monetary tools. The challenges are amplified in emerging markets which lack such tools. As tempting as it is to borrow, someone will have to pay this money back, here or abroad, this generation or the next.

There is greater consensus, it seems, on the proposed tenets of the post-Covid economy: ideally, greener, more equal and with a rapidly digitising workforce. But this is usually a view from a privileged standpoint.

The question for those in the private and public sector fearing a populist path and its inevitably calamitous socio-economic and authoritarian outcome, is how to build an offramp from the Covid crisis to a higher growth economy that will absorb the growing pool of unemployed.

Despite innumerable plans and attempts at public-private dialogue from growth initiatives to rah-rah investments summits and leadership fora, these have not delivered. Celebrationism – the view that a positive outlook will change reality – is no substitute for substance. The statistics of growth, employment and (actual, not promised) investment are the key metrics, not the frequency of meetings and their attendance.

A lesson from Zimbabwe, among others, is that just when you have seemingly hit rock-bottom, things can always get worse. And in South Africa, things are now about to get much worse. According to the latest numbers released by the Reserve Bank, the first quarter – prior to the Covid-19 crisis – saw the outflow of over R96 billion from bonds and shares. Foreigners, showing decreasing confidence in the local economy sold bonds worth R74,4 billion and equities worth R23,1 billion.[10]

Given that South Africa's economy has been strangled by (sometimes necessary, sometimes excessive) Covid-19 regulations, it is likely that this fall in confidence will accelerate for the second quarter when the lockdown began in earnest between April and June.

## Policy Rich, Implementation Poor?

South Africa has never been short of economic policy documents and prioritised plans. It is policy rich, but implementation poor. True to form, in the wake of the shock economic forecasts mentioned above, both the ruling ANC and business and a clutch of individuals have issued economic recovery plans which claim to have the answer to the country's economic travails.

This new round of papers shares common themes – an acceptance that the economy must be fundamentally restructured, a belief that a large infrastructure programme will stimulate the economy and a view that government and the private sector must work together.

*The question for those in the private and public sector fearing a populist path and its inevitably calamitous socio-economic and authoritarian outcome, is how to build an offramp from the Covid crisis to a higher growth economy that will absorb the growing pool of unemployed*

But the devil is in the detail and when it comes to how these themes should play out, there is a sharp divergence of views. As ever, South Africa's economy's greatest enemy is itself – the entrenched patterns of decades of doing things the wrong way which are hard to change.

The ANC's document, issued by its Economic Transformation Committee with the title *Reconstruction, Growth And Transformation: Building A New, Inclusive Economy*[11] sees the state growing in reach and micromanaging the economy. It cuts an isolationist path, calling for import substitution and local beneficiation of minerals, even proposing that state departments account for how much of their spending goes on local products.

The ANC believes that the pandemic has given government the upper hand in what it describes as 'the contested relationship between the public and private sectors'.

10 'UPDATE 1-South Africa's foreign direct investment inflows rise to $1.7 bln in Q1', *Reuters*, 16 July 2020 at https://af.reuters.com/article/southAfricaNews/idAFL5N2EN277.

11 'Reconstruction, Growth And Transformation: Building A New, Inclusive Economy', ANC Economic Transformation Committee, 8 July 2020 at https://cisp.cachefly.net/assets/articles/attachments/82688_etc_document_final_8_july_2020.pdf.

'The COVID-19 pandemic has reinforced the legitimacy of public investment in health care. It has legitimized a greater and more active role of the state in guiding the economy. It has forced a rethink on public services that are now seen as a necessary investment rather than a liability. Central banks are increasingly being called upon to assume a more active and direct role in supporting the real economy.'

And it has strengthened the party's interventionist instincts. 'To achieve significant job creation multipliers, the emphasis will be on localisation, including maximising the use of South African materials and construction companies as well as labour-intensive methods,' the ANC argues.

*Business For SA's* document, *A New Inclusive Economic Future for South Africa: Delivering an Accelerated Economic Recovery Strategy*, strikes a different course, envisaging an expanded role for the private sector.[12]

It argues that it is time for 'a committed leadership willing to make difficult, though sometimes unpalatable choices focussed on appropriate policies, which enable investment and thus inclusive growth.'

It goes on: 'Enabling economic growth at the required level and attracting domestic and foreign investors, requires new thinking on policy development and implementation by government. In particular, these must focus on the ease of doing business (currently ranked 84th out of 190, from 35th in 2008, in the World Bank's *Ease of Doing Business* index), education, sustainable economic transformation, and innovation and entrepreneurship to improve the nations' overall competitiveness (currently ranked 60th out of 141 globally by the WEF).'

*As ever, South Africa's economy's greatest enemy is itself – the entrenched patterns of decades of doing things the wrong way which are hard to change*

Clearly a more interventionist state is not going to improve 'the ease of doing business', so there is a gulf between these two positions that ought not to be swept under the carpet in the desperate search for a way out of the crisis. The ANC does, however, admit: 'Due to subjective errors, the capacity of South Africa's democratic state has been weakened. Poor cadreship has resulted in the weakening of state capacity which has been compounded by corruption. There has been a lack of honesty about what can and cannot be achieved at particular points.'

There is some room for hope. The greatest area of convergence is on the need to fund and build infrastructure on a large scale to absorb labour and to act as a catalyst for economic expansion.

The ANC talks of 'an infrastructure-led recovery with new investments in energy; water and sanitation; roads and bridges; human settlements, health and education; digital infrastructure and public transport' but adds that the 'emphasis will be on localisation, including maximising the use of South African materials and construction companies as well as labour intensive methods.'

12 'A New Inclusive Economic Future for South Africa: Delivering an Accelerated Economic Recovery Strategy', *Business For South Africa*, 10 July 2020 at https://www.businessforsa.org/wp-content/uploads/2020/07/B4SA-A-New-Inclusive-Economic-Future-for-South-Africa-media-release-10-July-final-1-2.pdf.

Business says a 'recurring conclusion across most sectors is that infrastructure is a key enabler which must be addressed with urgency if businesses are to deliver inclusive growth. A constructive, effective policy framework is required to support and sustain growth.'

How would such a partnership on infrastructure work? Would 'localisation' mean paying a higher price for goods and passing this on to consumers, even if this puts these goods out of reach of the poorest? Would it mean taxes on importing machinery that might expand production and create jobs?

The ANC says: 'While it is an urgent priority that state capacity to plan and monitor the execution of infrastructure projects should be strengthened, there will also need to be expanded use of public-private partnerships, including build, operate and transfer project delivery methods.'

Business proposes the same model in slightly different language and puts a number to how much government could save: 'The private sector can fund, develop and operate economic infrastructure in a regulated competitive environment, to reduce the strain on the fiscus and SOEs without increasing the cost to the consumer. This would result in faster and more sustainable economic growth, resulting in the public sector funding requirement shrinking to R1.9 trillion over three years and the budget deficit normalising at 3.5% in 2025.'

The 'BOT' model works like this: The government delegates the design and building of infrastructure to the private sector, which has the concession to operate it for a time during which it must raise the finance for the project and retains revenue generated by the project. When the concession matures, the infrastructure is handed over to government without any money changing hands. It is a good way for government to leverage private sector finance and expertise to build infrastructure without tapping the public purse. The trouble is, it requires a great degree of policy certainty because these are medium- to long-term projects and a change in policy could see the asset taken over by government before the private sector has recouped its investment.

> *The greatest area of convergence is on the need to fund and build infrastructure on a large scale to absorb labour and to act as a catalyst for economic expansion*

The key then, to agreement on the infrastructure plan is the 'policy certainty' which is the number one priority for business. Which is why the first three points on its list of priorities are: '(1) Policy consistency; (2) Regulatory reform; (3) Addressing crime, corruption and undoing state capture', none of which are prioritised in the ANC document.

Exactly how enough policy certainty will be achieved to unlock private investment is the issue at the heart of restarting the economy.

The ANC sees a new 'infrastructure development agency in the Presidency' as managing these projects. This would complement 'pockets of excellence that currently exist within the State and State-Owned Companies with regard to project management capabilities'. Whether this body would bring together private and public sector players is left unsaid.

Business calls for 'a new form of partnership between government and business in pursuit of these challenges. The basis for such a partnership might be a number of task teams, constituted jointly by experts from the public and private sector, with decision makers from key role players across society. Each team should focus on one of the high impact priority areas, along with a team considering key policy interventions in the areas highlighted.'

While the ANC believes government needs to take a stronger hand in directing things, business believes it is time to cede decision-making to forums where it sits alongside government.

There are, of course, a plethora of other priorities mentioned in both the business and ANC documents, related to kick-starting what the ANC calls 'the productive economy'.

The most important of these – the need to enable a rapid switch to the digital economy which enables production, sales and distribution to function during a pandemic – is not given much attention. The ANC says – for perhaps the 100th time in as many weeks – that the licencing of digital spectrum is urgent. 'Decisive progress will be required in telecommunications reform, including expediting digital migration and spectrum allocation to reduce data costs for households and firms.' But, for reasons which are opaque, the communications ministry has failed to take this straightforward decision that would enable more rapid digital growth for years.

But, the key agreement that needs to be reached is over how infrastructure – code for getting the giant state-owned enterprises out of the mire of subtracting from the country's finances and back into the business of adding to the country's productive capacity.

> *Attractive though it might be to allocate blame and sit on the sidelines, neither business nor government can afford this approach as the country enters its worst-ever economic crisis*

At the core is how President Cyril Ramaphosa will take this project forward.

On the upside, ANC appears to accept that the Presidency will lead this. 'A process of social dialogue and social compacting, both at national and sectoral level, will be required to unite in action key constituencies including business, labour, community and government. To lead this process, South Africa's Presidency should be strengthened to play a decisive role in economic policy co-ordination and, working in close liaison with government's economic cluster, should closely monitor and manage effective policy execution.' On the downside, this appears to diminish the Treasury's ability to manage the numbers and ensure that financially sustainable plans are developed.

## A New Transactional Approach

The failure of previous plans, however well-sequenced and prioritised, has led some to believe that the ANC will never make the tough choices necessary to pull the country out of its steepening economic dive. Instead the political consequence of inevitable economic failure is, by this argument, the only means whereby the ANC will change.

While there is talk of the need for a new post-1994 compact, government actions tell a different story. Rather than finding common ground, government policy proposals such as the recent gazetting of employment equity targets and penalties suggests another intention. As the DA spokesperson Michael Cardo put it, this legislation would have the effect of choking SA's barely breathing economy. Another industrialist put it more succinctly, if crudely, noting 'You would think they had a plan to f**k it up'. Government's move reflects a wrongly founded view that the Covid crisis has "shifted the balance of forces" and business must be squashed. This can only be a road to perdition.

South Africa's greatest adversary remains itself. The government's failure to assess the failure of its policies and admit error and thus to view the current situation as a problem only and not a crisis has brought us to this point. Hence the rhetorical doubling-down on the state. This is compounded by a pathological unwillingness to make tough choices and insufficient ability to manage complexity. At the same time, even though business may be an increasingly trusted interlocutor in the face of government failure, it has so far been unwilling to use its economic leverage in this national interest, reflecting its diffuse nature. Instead, business may have made it easier for government by donating and supporting causes softening the blow of poor policy choices and weak delivery systems. Attractive though it might be to allocate blame and sit on the sidelines, neither business nor government can afford this approach as the country enters its worst-ever economic crisis.

In fact, business and government face a similar challenge in trying to engineer a new path that will lead to recovery and jobs. Business has to convince sceptical shareholders that they will not only get their money back, but that they will make a profit. And government has to convince its sceptical Alliance shareholders that the country needs to drop the posturing on 'Expropriation Without Compensation' and 'Prescribed Assets' and reset its economic trajectory to attract the capital

## A New Transactional Compact Between Government and Business

Such a compact would have to be based on give-and-take and an agreement to undertake concrete economic actions which move the economy and the nation forward.

Some of these agreements could be catalytic. Government could agree to speedily implement the opening up of spectrum and business could commit to investing in free wifi.

Government could allow graduates with Masters degrees in all disciplines and Bachelors degrees in computer science entry into the country business could undertake to establish coding schools in the major cities and unlock investment in tech and innovation.

Government could agree to free up urban land and business could agree to invest in housing in public-private partnerships that could alter apartheid spatial planning.

Government could introduce labour market flexibility for youth entrants and business could undertake to increase hiring in labour absorbing industries.

Other measures could address inequality and fiscal challenges. Business could undertake to cap executive remuneration and government could agree to a similar salary cap in the public sector.

But perhaps the greatest compact that is needed is around how government and business could spark growth and generate jobs by accelerating the maintenance and installation of new infrastructure. A new model for public-private partnerships that introduces professional management and capital into large projects could relieve government of some of the borrowing it might otherwise have to undertake to fund infrastructure.

needed to grow. Government failed to capitalise on the spirit exhibited in the first three weeks of the lockdown, when business came forward to assist. Instead of portraying business as a key ally, the ANC too easily reverted to the 'business as enemy' typology. It is difficult to convince shareholders to invest in a low-growth, low-confidence and high-polemic environment.

We know that growth is not only too low, but that it is a function of investment, and that of a combination of opportunity and business confidence. We also know that the state is not an efficient mechanism for delivery, and public capital is anyway insufficient to achieve the rates of employment and growth necessary.

There is little point in moaning about 'investment strikes' in referring to the R1 trillion that once sat on the balance sheets of South African companies. More important, is understanding what has to occur to get this money – new capex, not top-ups to existing investment – to be spent in the country, creating wealth.

Much has to be done and led by government in terms of policy and the machinery of state. It should fundamentally do so by asking whether this action will help of hinder in creating employment.

What is needed is a new compact between government and business which should move beyond the tired old culture of blame and name-calling. An economic compact, which sets out a clear transactionalism, can be the incentive for the tough choices necessary, a positive alternative to waiting around for the disincentive of failure and social upheaval.

A new narrative is needed which makes freedom from poverty the joint responsibility of government and business, working in partnership and leveraging the pool of skills and capital which lies dormant because of distrust. The ideologues on either side will cry foul, but they should not be allowed to determine policy from the sidelines. It's time to cut a proper deal to grow the economy.

## Conclusion: Look forward, not down

It is impossible to know whether we are closer to the beginning than the end of this crisis. At this moment, walking a tightrope between resilience and recovery, leaders have not to look down too often, but mostly to look forward.

President Cyril Ramaphosa will have to lead the development of a new social compact, but the ANC has signalled that it – and presumably government – will join these discussions with a partisan agenda and is unable to resist an assault on 'market relationships' in its outline. 'For a social compact to be effective, government must take on responsibilities well beyond those which are asserted by the neo-liberal agenda that seeks ubiquitous commodification and attempts to enforce market relationships on almost all spheres of life, with the result that only the well-off can afford access to quality health, education and other services.'

Ramaphosa's greatest strength is also his greatest weakness. His instinct is to negotiate and seek consensus, but this belief in talking issues to death also prevents him from taking decisive actions that are good for the country, despite the fact that they will alienate one or another constituency.

There is no way to accommodate the ideologues without diluting the recovery plan to a point where it makes no difference. It's time to elbow them out of the way and make some big calls about how South Africa does business.