## SECOND SCENARIO **WALK BEHIND**

This is a scenario where the state assumes the role of leader and manager. State planning and co-ordination are seen as central mechanisms for accelerating development and delivery to citizens, especially poor, unemployed and vulnerable people. The ruling party argues that strong state intervention in the economy is in accordance with global trends, and the electorate, concerned about the impacts of the global economic crisis, gives the ruling party a powerful mandate. Strong state intervention crowds out private initiative by business and civil society. The risks of this scenario are twofold: one is that the country accumulates unsustainable debt; the other is that the state becomes increasingly authoritarian.

*This scenario is predicated on strong state leadership that develops the necessary confidence to lead, direct and set the terms of development. The state steps in to fix the "leaking boat". However, over time business increasingly withholds investment, while citizens become complacent and apathetic expecting the government to deliver all. When the state has to turn to multi-lateral financial institutions in 2020 to fund its budget deficit, this portends potentially dire consequences. State autonomy and legitimacy are seriously undermined.*

## STATE PLANNING TO ACCELERATE DEVELOPMENT: 2009 – 2011

It is 2009 and the ruling party is returned to power on an election platform of accelerated delivery to citizens, especially poor, unemployed people. The post election mood in the country is upbeat – the electorate is buoyed by the election outcome. The new government is faced with pressure to deliver to its constituency. However, the global economic crisis is making itself felt: investment is slowing and growth is the lowest it has been since the dawn of democracy.

The ruling party advocates for stronger state management of and investment in the economy for two reasons. One is that global evidence has shown that unregulated markets are disastrous. The other is the failure of the private sector to create sufficient employment or to increase the competitiveness of South African industry.

Governments worldwide, even of developed market economies, have intervened since the advent of the global crisis in 2008 to rescue nationally important industries and jobs. In South Africa, the government argues that something different is needed from state intervention. The intervention may throw a lifeline to some employment-intensive industries in the short term. More importantly however, it must fundamentally change the underlying structure of the economy to create new jobs and eradicate poverty. The government believes this is best done through large-scale infrastructural investments.

Government therefore decides to increase state investment in large-scale infrastructural projects that it hopes will position South Africa globally. Some, such as the Pebble Bed Modular Reactor, had been mooted before but had waned in popularity. They are resuscitated. Others, such as large aluminium smelters, are new projects. Government hopes that it can leverage private sector investment in these projects by persuading business that such investment will build a stronger, more stable economy.

The new government also prioritises what it calls "development objectives" and introduces a series of state-led interventions, with an emphasis on state planning and co-ordination. A group of "Super Ministers" is appointed to direct and hold responsibility for key clusters. Government departments are required to co-ordinate activities so that when, for example, the department responsible for industrial strategy detects a potential skills shortage in a particular sector it can alert the education sector to this.

Government prioritises the building of state capacity by recruiting key technical, economic and planning experts and boosting the training capacity of the government-run civil service institute. Industrial strategy becomes a centre-piece of government's economic strategy, with tax incentives awarded to industries that demonstrate their international competitiveness and to those that provide over a certain number of jobs.

In 2010, the national mood is upbeat in spite of the global recession. South Africa successfully stages the World Cup and the tourism and infrastructure dividend relieves some of the pressure on the economy. Many citizens are also buoyed by the increased focus on land reform, poverty eradication, social delivery and

job creation. The government's announcement in 2011 of a major increase in the Expanded Public Works Programme to upgrade infrastructure is well received. Although the Public Works' projects, which include roadworks, home-based care programmes and the construction of low-cost housing increase the quality of life for many communities in terms of job creation, this provides only temporary relief.

## DISPELLING DARK CLOUDS: 2012 – 2014

By 2012, the global crisis has constrained growth prospects further and the private sector is not investing. The government is in danger of losing support in its own constituency as job losses mount; it is forced to cast the social welfare net even wider. For poor people, very little if anything has changed since the previous administration, and conditions have especially deteriorated for those affected by the wave of retrenchments that began in 2009. To garner business support, the state re-commits itself to a mixed economy to try to bolster private investment and obtain support for government interventions to deal with the economic crisis.

Government is committed, in terms of its electoral manifesto, to increase social grants and to continue spending heavily on education and health. However, there is no noticeable improvement in the provision of skills for the economy, or in health or education performance. This deficit in education, health and skills has a detrimental effect on economic growth rates, as well as on the economically active population and social cohesion.

An increase in social grant payments and other social expenditure, as well as overruns on the World Cup budget, all contribute to a significant increase in the budget deficit. Borrowing is more expensive but necessary because tax revenues have again failed to meet their target due to lower levels of private sector investment.

Government decides that the only solution is to markedly increase its role in the economy and to try to take business along with it. As the 2014 election nears, government embarks on a two-pronged strategy. It outlines this strategy during the ruling party's election campaign. One prong is to invest even more heavily and directly in the economy. The other is to persuade key sectors in society, including its allies in the labour movement, that they need to make certain sacrifices in the interests of longer-term development.

In early 2014, government convenes a National Economic Summit which leads to a Growth and Investment Accord. The trade unions in the public sector commit themselves to performance contracts and more efficient and cost-effective delivery. Executives and highly paid professionals are persuaded to accept salary restraint and higher tax rates so that borrowing can be contained. Business agrees in principle to increase investment in infrastructure projects – voluntary investment will stave off the ever-present threat of prescribed assets. Labour for its part agrees to greater labour market flexibility in return for job protection in the short term. All parties to the accord have to trade off short-term sacrifices for longer-term gains.

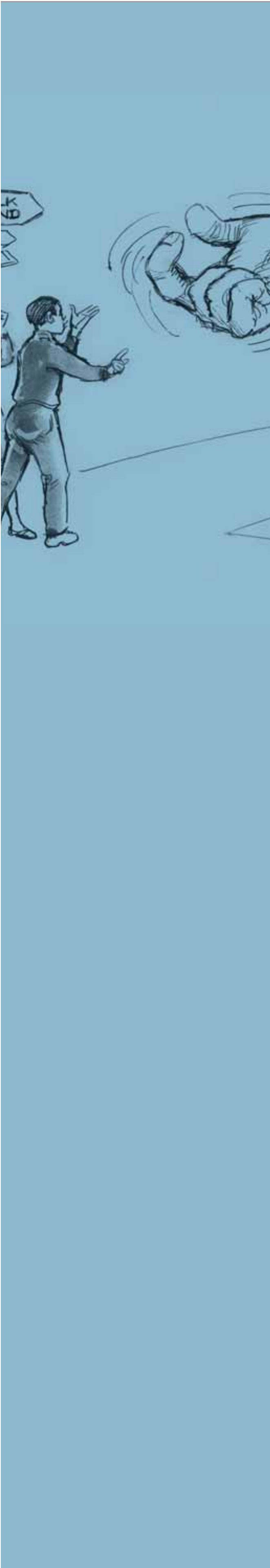
Executives in state-owned enterprises are told their salaries will be cut; the marginal tax rates increase significantly so that highly paid professionals and executives in the private sector contribute more to the fiscus. This, reasons the government, will help contain borrowing.

The ruling party actively campaigns for a stronger state, which, it promises the electorate, will take greater control of the economy and create more jobs. Organised labour and key civil society organisations fall in behind it.

The 2014 election sees a consolidation of the 'pro-poor' agenda as the ruling party becomes more strident in its demand for redress and redistribution. This finds resonance with the majority. The thrust of its election campaign revolves around holding the market economy responsible for the country's woes. The party is returned to office with a comfortable majority and obtains a stronger mandate to restructure the economy.

## THE STATE BACKS WINNERS; OR IS IT LOSERS?: 2015 – 2017

After 2014, government accelerates its large-scale infrastructure programme to stimulate economic development. The expansion of rail and ports is prioritised and new lifelines are also provided to state-owned enterprises, including productive and unproductive state assets such as Eskom, Telkom, Transnet, Denel and SAA among others. Government calls for private pension fund investment in these projects, warning that it will introduce prescribed investments if 'voluntary' private sector investment is not forthcoming. Wary of borrowing too much on international markets, it also decides to borrow more from the government pension fund.



As the projects take off, the ongoing skills shortage is felt more acutely. Improvement of the skills level and of education is prioritised. Scarce skills and artisan training is accelerated and technical colleges are de-mothballed. The government turns to development co-operation agreements with other countries to draw the international skills required for the projects.

By 2016, the projects are still not making a significant dent on unemployment and poverty – they have long lead times and many of them are capital-intensive. And by late 2016, the projects are yielding mixed results. Some are succeeding but others are proving to have been dubious choices – rather than "choosing winners", as it intended, the government has chosen losers – and several projects are failing. They require more and more resources to be pumped into them.

The government now decides to introduce prescribed asset requirements, despite strong opposition from the private sector.

## SHORING UP THE BASE

To maintain support among its own base, the government turns, belatedly, to improving the quality of its social service delivery. The lack of focus on the quality of services, because of its concentration on economic intervention, has left it vulnerable to criticism from all quarters. The quality of social service delivery has been, at best, uneven. Government now seeks to address this through its Co-ordination and Planning Department.

Government departments are directed to deliver social returns on their expenditure. Tougher action is threatened against civil servants who do not deliver.

The Department of Education embarks on a renewed campaign to mobilise parents in the interest of development and to pressure teachers to re-commit themselves to their profession. There is active intervention by the government to equip schools with libraries, laboratories and computers. Funding to teachers' and technical colleges is increased to meet teacher and skills shortages.

By exercising tight control of the management of health services, and mobilising citizens behind preventative programmes, as well as providing effective treatment programmes, government attempts to eradicate the scourge of TB and HIV/Aids.

In 2016, there is a renewed focus on urban and rural reform, including an increased role for subsistence farmers to improve food security in the rural areas. To transfer land more speedily, government abandons the "willing buyer-willing seller" principle. This causes jitters in the market place. It also makes tranches of state land available to support black communal farming. Land tenure patterns in traditional areas are also reformed so that successful farmers can produce a surplus. However, this proves to be too little too late as the earlier over-emphasis on industrialisation takes its toll.

Despite the populist rhetoric, inequality continues to widen. With its eye on the next election, government embarks on a renewed 'redistributive social justice' campaign to reduce inequality, and resorts to stricter BEE requirements for government contracts, including favouring employee share ownership in companies and farms. Tax policy becomes a more proactive instrument of redistribution as higher taxes support state investments, social grants and poverty eradication programmes.

In 2017, two years before the national elections, government makes a concerted effort to clear the backlog in public housing and to improve public amenities in poorer urban areas. This helps to boost the Expanded Public Works Programme, which has been allocated steady increases in funds in each new Budget since 2009.

Government takes a stronger stance of zero-tolerance towards crime. The capacity of the security and criminal justice system is strengthened as the state becomes more assertive and aggressive. Crime is reduced through tough measures, including more tolerance of a "shoot to kill" policy on the part of the police and the private security industry is tightly regulated. Citizens of all social groups condone the actions of a strong government.

## THE TIDE TURNS: 2018 – 2020

But a year later in 2018, the situation is dismal. The use of prescribed investments of public and private pension funds has alienated the private sector and public sector employees, who fear that their savings and pensions will decline in value. Private sector domestic and foreign direct investment has all but dried up. The economy stagnates.

As a result, the government is forced to maintain social grants and UIF support at high levels to neutralise the threat of impending food riots. It can ill afford to do this. It borrows more money on the international markets but it has now reached a point where it is borrowing simply to fund the interest repayments. The proportion spent on interest in the Budget is about the same as that spent on education. It needs to find another source of borrowing.

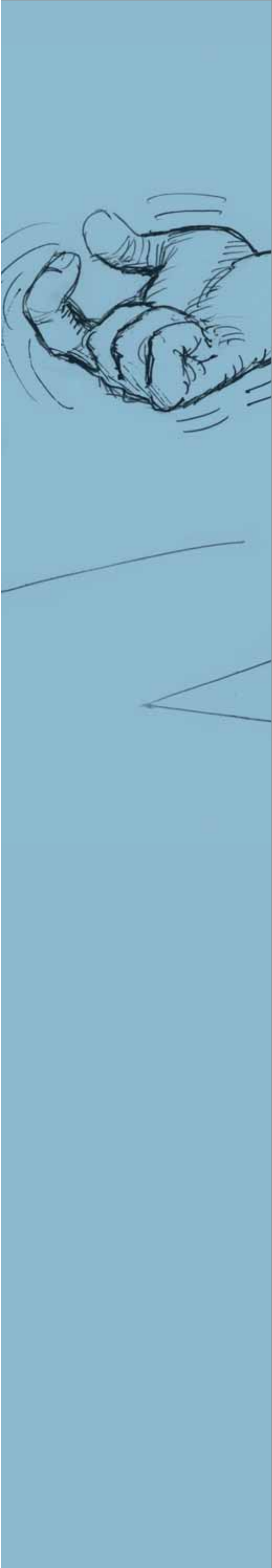
Notwithstanding its rhetoric of independent development, government is forced to consider borrowing from multi-lateral financial institutions to maintain state industries and fund its budget deficit.

However, in spite of the IMF's more flexible lending regime introduced at the start of the economic meltdown in 2009, it still imposes restrictive conditions on countries to which it lends. One of those conditions is that it is highly selective about which state-owned enterprises it supports; another is that it opposes expenditure on non-conditional social grants. In this way, the IMF and World Bank are able to dictate to the government what its spending priorities should be, and generally these do not include large state-owned enterprises.

Because of these restrictive conditions, and with elections imminent, government decides to hold off on borrowing from the IMF or World Bank and seeks instead to raise the required revenue through international bond issues. It is successful, but only at a much higher interest rate as the credit ratings for the country have decreased. This forces government to raise the deficit more than it has budgeted for.

The ruling party enters the 2019 election confident about its mandate, but worried about how it will finance social delivery. Until 2018, the government has managed to keep its constituency neutral, if not happy. However, it has alienated the private sector and it is increasingly unable to finance its spending and investment programmes. Nonetheless, government is still buoyed by the support of the trade unions, as well as the land and civic movements, which have benefited from more aggressive land reform and urban development. The unions see the post-2019 elections period as "payback time" for the wage restraint and flexible labour market policies they agreed to under the 2014 social accord.

The election campaign of 'Growth and Redistribution' manages to secure the support of the majority of citizens, while the middle classes acquiesce, somewhat bought over by the reduction in crime and social instability. Opposition parties continue to squabble; they remain divided and fractured and fail to form an electoral pact. Thus in 2019, the ruling party is returned to power, albeit with a reduced majority, as a result of greater voter apathy and citizen complacency.



## STRUCTURAL ADJUSTMENT – WHO WOULD HAVE BELIEVED IT?

However, as 2020 draws to a close, the tide has thoroughly turned. After four years of declining investment, budget deficits, mounting indebtedness and murmurs of discontent, government is finally forced to apply for a full IMF conditional loan, which includes a structural adjustment programme, at the expense of its constituency. Government is given little choice but to more speedily reduce the budget deficit, reduce the size of the public sector, institute large-scale civil service reform, including massive retrenchments, cut social grants and privatise large parts of the economy.

By 2020, unemployment and poverty begin to rise and murmurs of discontent and pockets of civil unrest increase. The cosy relationship between the state and trade unions begins to falter and government resorts to deploying the security forces to re-establish law and order.

The dream of a strong state that delivers socio-economic benefits to its people is deferred. That dream pivoted on a substantially strengthened state capacity and a highly professional civil service, and the ability of the state to leverage the necessary technical expertise, resources and capital to engineer development.

However, as this scenario unfolds and draws to an end, it reveals high state involvement amid continuing state incapacity in critical areas of delivery; leading to aggressive rather than confident intervention. The private sector and middle class are alienated. Citizens who were initially supportive of state intervention later become acquiescent and then, towards 2020, are angry that delivery has to be cut back. Unrest flares up and a hard-pressed state harshly suppresses these protests before they can spread.

The greatest risk of this scenario is that the state descends into authoritarianism. It cannot muster the support it requires from business or civil society, and has to rely on authoritarian methods to compel compliance. This is particularly the case when the government borrows imprudently either to invest in the economy itself or to deliver social services to its constituents, and then falls into a debt trap. Once it is forced to retrench civil servants and cut back on social grants because its debt makes it dependent on the dictates of multi-lateral financial institutions, it has to heavily suppress the social unrest that results.

# Key Ministries to report to DP to fast-track skills development

## Pretoria, October 12, 2010

The Super Minister's Council has announced that the Deputy President will take responsibility for ensuring that there is tighter co-ordination between the home affairs, industrial strategy and education departments.

From next week, those ministers will report directly on a weekly basis to Deputy President Andrew Overdrive, who is responsible for overall state planning and co-ordination.

Announcing this at a Cabinet briefing, Drive said it was clear that Home Affairs was not processing applications of skilled immigrants quickly enough, and that the education department, in spite of an improvement in the rate of matric passes, was not producing enough science and maths graduates.

"The problem is these departments are not talking to each other in a productive way," Overdrive told the briefing. "We have hundreds of engineers and teachers who are still waiting for Home Affairs to process their papers, and business is complaining that they cannot find sufficiently skilled people in the country."

The skills shortage is also believed to be affecting large state-owned enterprises (SOEs), such as the Coega harbour development, the Pebble Bed Modular Reactor, and Eskom. Last year, Cabinet committed to ploughing resources into these SOEs to try to kick-start the ailing economy, which has shed more than 250,000 jobs in the past year.

# Massive boost for PBMR, Eskom

## Pretoria, January 20, 2011

Government is to pump more than R10 billion extra into the Pebble Bed Modular Reactor next year, and more than R15 billion into Eskom.

This was announced today after the annual Cabinet lekgotla. The R10 billion will be over and above the R22 billion already spent on the PBMR.

Although the PBMR is still not operational, a spokesman said government believed it was a project that could provide South Africa with a cutting international edge in technology in the strategic energy sector. "South Africa owns the intellectual property rights to the PBMR technology so we can sell it worldwide when it comes on-stream," he said.

However, critics have pointed out that the PBMR has consumed vast amounts of the Budget since 2007 and is yet to show any returns.

# Social grants, UIF get big boost in budget

## Cape Town, February 9, 2012

Social grants and the Unemployment Insurance Fund are to receive a major boost this year, the Minister of Finance Johnson Cwele announced in the Budget speech today.

Expenditure on social grants will rise from R118.5 billion to R120 billion this year and R125 billion over the medium term. It is expected that 15 million people will receive social grants this year, rising to 17.5 million by 2015.

Expenditure on the Unemployment Insurance Fund is expected to rise to R9 billion this year – a massive increase of nearly 50%. Revenue in the UIF pool is down from R15 billion last year to R10 billion this year.

The sharp increases in both social welfare and unemployment insurance are due to the large increases in unemployed people laid off last year because of the current recession.

Cwele predicted that unemployment may worsen this year as indications were that there had been a sharp drop in domestic and foreign investment.

# Breakthrough accord on economy

## Pretoria, May 2nd, 2014

In what has been hailed as a breakthrough, a new accord has been reached between government, business organisations and the trade unions.

The three-day long National Economic Summit ended late last night with parties agreeing to sign the pact, which will be known as the "Growth and Investment Accord".

The essence of the pact is that business will commit more savings to investment and will not implement job-cuts in the next year, if unions agree to a wage-freeze in the same period.

Government also wanted business to invest in some of the larger state-owned enterprises such as Denel and the Pebble Bed Modular Reactor. However, no agreement was reached on this.

A spokesman for the Summit said talks would continue on this point later in the year.

# Business outcry over prescribed assets

## Johannesburg, July 17, 2015

Business organisations today sent letters of protest to the government objecting to the proposed Bill on prescribed investments.

The Bill, due to be debated in Parliament when it resumes in September, will compel private retirement funds to invest a certain proportion of their capital into government-designated industries.

These have not yet been stipulated, but among them are believed to be the Road Construction Program, announced in last year's Budget, the Pebble Bed Modular Reactor and Eskom.

"It is critical that we build our infrastructure," said a government spokesman at the post-cabinet briefing this week. "The market is always reluctant to invest in big-sky projects. We need the investment, and the time has come for the government to harness that investment."

Business, however, is concerned that the returns on private pension funds will be severely compromised if fund managers do not have the discretion to invest contributors' funds at the best possible return.

# New bid to recruit skills

## Cape Town, February 10, 2016

Government will embark on an aggressive recruitment strategy for nuclear physicists and engineers for its PBMR and related energy projects, the President announced today.

Speaking in his annual State of the Nation Address, President Seloa Khotso said the projects had not yet met expectations because of a shortage of the necessary skills to run them.

The PBMR, now ten years old, is yet to begin producing energy. From this year, the Prescribed Investments Act, passed last year in the National Assembly, will force pension funds to invest 30% of their capital in the PBMR.

# Unions threaten clash with government over performance plans

## Johannesburg, June 1, 2017

The largest trade union federations in the country have vowed to oppose government's plan to introduce performance management for civil servants, as well as the idea to impose a wage freeze next year.

The unions say that strict performance management, of the type spelt out by Public Administration Minister, Ms Yvonne Ebrahim, is a violation of the rights of workers and could well be used to victimise union members.

However, government is adamant. "Our education system is not performing. We are not turning out the skills that we need," said Ebrahim at a briefing yesterday. "Our teachers are clearly not doing their jobs."

But unions have threatened a massive tools-down throughout the country if the performance management system of the kind the government has proposed is adopted.

# Budget deficit at highest point since 1994

## Cape Town, February 15, 2018

The Budget deficit is to increase to 5.7% this year, the highest in the era of South Africa's democracy.

Announcing the annual Budget yesterday, Finance Minister Johnson Cwele said the deficit was necessary to fund the increased numbers of people on social welfare grants and on government's own investment and development strategy.

The number of people on social grants has increased from 16 million last year to a projected 19 million by the end of this fiscal year.

The deficit announcement comes at a time when private sector investment has fallen from 25% of GDP to less than 16%. This is approximately what it was in 1994, indicating a sharp drop of confidence in the future of the country.

The proposed deficit is likely to fuel interest rates – currently standing at 15.5%, up from last year's 14%.

# Police, residents in battle over social grants

## Dutywa, August 3, 2020

Angry residents of this Eastern Cape town blockaded the N2 for about 10 km in both directions today, severing the national route, as they burned tyres and stoned passing cars in protest at the cut in social welfare grants.

Police battled to contain the conflagration, which destroyed the tar road, as well as public buildings and schools in the area.

The residents are protesting about the 50% decrease in the amount of the social grant from this year. The decrease was announced by the government in February.

It is a condition of the loan it has taken from the International Monetary Fund of US$10 billion.

The government announced after the May elections that it would have to take the loan because the deficit had climbed to 9%. Investment has also fallen off sharply and unemployment has increased from 19% to 24% in the past two years.

The government is also to stop all Public Works Programmes from next year as part of the conditions that the IMF has set for the loan. This is expected to further increase unemployment. About 1.3 million people are currently employed in the Public Works Programmes.

The Dutywa protest is the third of its kind in small towns across South Africa in the past three weeks.

## SUMMARY: SCENARIO 2: WALK BEHIND

| ACCELERATING DEVELOPMENT: 2009 – 2011 | DISPELLING DARK CLOUDS: 2012 – 2014 | STATE BACKS "WINNERS": 2015 – 2017 | THE TIDE TURNS: 2018 – 2020 |
|---|---|---|---|
| • Ruling party retains majority.<br>• Global crisis means declining investment, growth and tax revenues.<br>• Government commits to continued investment in large infrastructure projects.<br>• Government boosts state capacity through greater coordination and training.<br>• Expanded Public Works Programmes create more unskilled jobs. | • Job losses mount as global crisis bites harder; government spreads social welfare net.<br>• Government increases tax rates, freezes civil service wages.<br>• National Economic Summit results in Growth and Investment Accord.<br>• Election campaign run on "pro-poor" platform.<br>• Ruling party victory taken as mandate for even stronger state intervention in economy. | • Government accelerates large-scale infrastructure programme to boost development.<br>• Government feels skills shortage as it tries to develop key high-tech SOEs – "winners".<br>• Improvement of skills through better education and artisan training is prioritised.<br>• Some "winners" become "losers", with heavy costs to the fiscus.<br>• Prescribed asset laws force private investment in large projects. | • Prescribed asset laws alienate business: investment contracts and unemployment worsens.<br>• State borrows at high interest rates to fund growing deficit.<br>• Election run on "Growth and Redistribution" ticket.<br>• Country gets IMF loan conditional on sharp cut-back in state expenditure.<br>• Widespread discontent and protests: government cracks down. |