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The Future of the South African Political Economy Post-COVID 19

Edited by Mzukisi Qobo · Mills Soko · Nomfundo Xenia Ngwenya

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Mzukisi Qobo · Mills Soko ·
Nomfundo Xenia Ngwenya
Editors

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To Nomfundo's beloved parents Velaphi Elkan Ngwenya and Desideria Harriet Ngwenya, who succumbed to COVID-19 while this book project was in progress.

Acknowledgments

This book project arose from a partnership between Telkom and the Wits School of Governance (WSG). We wanted to bring together scholars and practitioners to explore practical solutions that could revitalize the South African economy. The book is, therefore, a testament to what can be achieved when both the public and public sectors pool resources and collectively aim to be part of the solution.

We would like to thank Telkom, especially former Chief Executive Officer Sipho Maseko and his team, Siyabonga Mahlangu, Phindile Dyani and Vukani Mde for their generous and unencumbered financial support to bring this project to fruition. We also thank them for their consistent commitment to providing a platform that can explore solutions to the country's challenges beyond a single ideological framework. Mzukisi Qobo initiated this project, defined its intellectual contours, and secured the invaluable partnership with Telkom. We thank him for his tireless leadership from the inception of the project to the conclusion of the book. Nomfundo Ngwenya pulled this project together as its project lead. She shaped its thematic coherence and brought a diverse team of scholars, researchers, and practitioners to lend their insights. We would like to thank her for the meticulous manner in which she held this initiative together till its completion.

The success of a multi-authored book rests significantly on the commitment of every single author. This point is especially pertinent to this book as it was written during one of the most trying periods in recent human history. Writing began in earnest in the middle of the first wave of COVID-19, when all involved were gripped by fear of the unknown. Despite the personal and professional trials that the pandemic presented, authors stoically focused on delivering excellent outputs and they displayed patience when circumstances dictated. We express our sincere gratitude to all authors who stayed the course, despite the many personal and professional challenges that the pandemic presented. We especially pay tribute to Prof. Benno Ndulu, who passed away shortly after submitting the first draft of his chapter. May his family take pride in his work and may his soul rest in peace.

Given the urgency and weight of the book's subject matter, we had to ensure that each chapter was subjected to rigorous scrutiny. Quality control was, therefore, built into the project design at the outset, and written peer review from respected academics was central to quality control. We are grateful to our reviewers for their constructive reviews and suggestions on how to align each chapter to the book's objectives.

Another important form of peer review we employed was validation workshops. Chapters were initially published individually as working papers and circulated to subject-area specialists, from whom we solicited feedback through online discussions. We express our gratitude to Kemantha Govender and Lerato Mtambanengwe at Wits School of Governance, who organized effective validation workshops. We also appreciate the excellent work done by Marisa Honey who edited the papers and Thabiso Sebata from Start Media for the graphic work to make the papers presentable and interesting. We thank Faizel Ismail, Anthoni van Nieuwkerk, and Vusi Gumede who provided guidance at various points in the development of this manuscript, especially their suggestions on the structure and alignment of the various themes.

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CHAPTER 1

Introduction: Responding to Pandemics and Economic Challenges: Policy Choices Post Covid-19

Mzukisi Qobo, Mills Soko, and Nomfundo Xenia Ngwenya

This research project was initiated at the beginning of the COVID-19 pandemic, a time marked by significant economic and social dislocations around the world. The world was caught unexpected by what may yet become the deadliest pandemic of the twenty-first century. It was in April 2020, barely two months after COVID-19 was declared a pandemic, that

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a group of scholars from various disciplines came together to give shape to the project, which at the time was titled "The Future Economy Project." It was clear to us as editors and conveners of "The Future Economy Project" project that the world would not be the same again, and that new ways of thinking about economic policy were required. This is also a time when digital transformation intensified as many places of work turned to digital tools to conduct their business, and as society's digital awareness grew.

At the time we conceived this project, the full effects of the pandemic were not yet evident. Yet it was already apparent that the health crisis that the world was experiencing was the first of its kind since the 1918 Spanish flu, and that it would have far-reaching implications for the global economy, hitting the most vulnerable countries and segments of society the hardest. It was therefore important that the project considered public policy responses to the social and economic dislocations spawned by the COVID-19 pandemic, and identify opportunities for implementation of reforms that will shape the future economic policy and growth trajectory. We thought it was important that we study the pandemic closely, and do so through a socio-economic lens that draws on history, approaches to state-market relations, and public policy perspectives. What we have learnt from history is that many societies that have gone through tough economic times, either as a consequence of wars or economic depressions, have managed to adopt policy measures that were not popular at the time, that entailed difficult trade-offs, and that yielded innovation.

We sought to examine the role that social, fiscal, and industrial policies could play in driving economic recovery in the wake of the social and economic damage caused by the pandemic. We also sought to examine how policymakers could bolster state capabilities in order to respond to and attenuate the social and economic effects of COVID-19.

We also took a closer look at the labor market conditions and the lessons that could be drawn from the COVID-19 pandemic about the future of employment. Additionally, we explored three key areas that will play a crucial role in shaping future economic revival, namely digital futures, the role of state-owned enterprises, and energy transitions.

At the time of completing this edited volume, two years after the onset of COVID-19 pandemic, the world was still reeling from its after-effects, having gone through several variants, with many businesses closed permanently and households losing livelihoods. There have been significant irreversible losses: loss of life, loss of social relationships, and loss of economic activity. When we first mooted this project, we wrongly assumed that developed countries would demonstrate solidarity in helping developing countries to access vaccines and to provide much-needed succor in the face of a devastating crisis.

Many of the affected countries are on the African continent and have weak fiscal capacity. Some are faced with sovereign debt crises and lack the resilience to bounce back quicker from the COVID-19 pandemic. The majority of African countries found themselves vulnerable and in need of both vaccines and developmental assistance. Vaccine nationalism took the center-stage, revealing deep inequalities between the developed North and the developing South. Although some countries borrowed from the emergency window of the International Monetary Fund to ameliorate the risks posed by COVID-19, the lack of certainty over how long the pandemic would last made it harder for these countries to maximize benefits and plan for the future.

In South Africa, the first set of hard lockdown measures were promulgated in mid-March 2020 and lasted for four months. The hard lockdown (risk-adjusted Level 5) had a pronounced effect on the economy and society. It became clear thereafter that the economy was not resilient, as many small and medium-sized enterprises collapsed and companies shed jobs. The country's macro-economic foundations were shaken too as the debt-to-GDP ratio widened and debt service costs mounted. The unemployment rate rose along with declining economic output.

To stave off the social pressures, in April 2020, the South African government announced a temporary unemployment income grant of R350 for all unemployed people and an additional R500 child income grant per caregiver for six months. The R350 grant continued as social relief for distress after the initial cycle of its implementation. As things stand, this social policy instrument is likely to be a permanent feature of government's policy tools as contestations over the need for a permanent basic income grant intensifies. The central bank, the South African Reserve Bank, also took extraordinary measures at the height of the pandemic. In addition to its sharp downward adjustment of the repo rate, which provided much-needed relief to businesses and middle classes, the central bank embarked on government bond purchases to ease strains in the bond market. This was the first time in many decades that the country witnessed the calibration of fiscal and monetary policy in the face of a severe crisis.

The second wave of the pandemic, which started in December 2020, revealed deep cracks in the national public health system, the failure of government to plan ahead and prepare for the inevitable, and poor coordination across government departments and agencies. Meanwhile, several wealthy countries had pumped money into early-stage vaccine development, betting on drugs as long-term solutions, and injecting large stimulus packages into their economies. Many of the drug manufacturers that were undertaking clinical trials were domiciled or originating in advanced industrial economies, and their governments contributed to early-stage R&D development. On the other hand, most developing countries had neither fiscal nor technical capacity to do the same.

Developing countries were at the back of the queue, waiting their turn after advanced industrial economies had vaccinated their citizens be. Those countries that could vaccinate their citizens early on were better equipped to revive their economies. Further, they also had more fiscal capacity to do more to cushion their citizens and spur economic dynamism. This uneven global response created opportunities for multiplication of variants and their spread, especially in those countries that had limited health infrastructure.

Toward the end of 2021, countries, such as the United States, the United Kingdom, China, and those in Europe, formulated strategies to build long-term resilience in their economies, combining relief measures for the most vulnerable in society with long-term recovery strategies to ignite economic dynamism. In response to the COVID-19 pandemic, the European Union (EU) set itself an ambitious mission to build "The Next Generation EU" to achieve a greener, more digital, and more resilient Europe propelled by the 880bn Euro Economic Recovery Plan. This financing package was to be replenished through borrowing from international capital markets. The disbursement mechanism comprised of grants and concessional loans to various EU member states upon approval of economic recovery plans.

Many African countries lacked the fiscal wherewithal to undertake such bold measures. South Africa's policy tools were not robust enough and government was also hollowed out by years of corruption and mismanagement. The country's economic recovery plan was undermined by revelations of widespread corruption in the procurement of Personal Protective Equipment (PPEs) during 2020, and significant financial wastage across the different spheres of government. It became clear that the country suffered from both tolerance for corruption and deficiencies in state capacity.

There is an urgent need for South Africa to devote significant resources toward building state capability and investing in new infrastructure and renewing existing infrastructure. COVID-19 has brought this matter to the fore for at least three reasons. Firstly, it has laid bare the need to urgently address the country's social infrastructure deficiencies in the medium to long-term. Secondly, it has amplified the necessity to invest in economic infrastructure for sustainable and inclusive growth. Thirdly, it has highlighted the importance of infrastructure investment as a mechanism for stimulating employment and economic growth in the COVID-19 response Reconstruction phase.

Most crucially, there is a need for leadership with the political will and conviction to tackle policy and legislative bottlenecks that stand in the way of economic change. Replenishing capabilities at both the executive and technocratic layers of government is essential for success. In addition, there must be strong institutions that are geared toward accelerating the implementation of government plans and programs instead of inventing new ones. The various government policy blueprints—ranging from the National Development Plan to the Economic Recovery and Reconstruction Plan that President Cyril Ramaphosa announced at the end of 2020—are crying out loudly for implementation.

For the African continent broadly, it will take nothing less than collaboration to build resilience and respond more robustly to future pandemics. Every time the African continent is faced with a major health crisis we are reminded of its institutional weaknesses and lack of preparedness to respond with agility in curbing the spread of infections. Crises are also a rude awakening to the importance of developing capabilities for early warning systems and acting before the health risks become overwhelming. The African continent struggled to pull together the capacity for testing and contact tracing, and its health-care systems were overwhelmed every time infections rose or new variants manifested.

Africa needs to build a robust infrastructure for long-term resilience. Building pharmaceutical manufacturing capabilities will require that policymakers pay close attention to a sound governance framework, fiscal resilience, technical capacity, strengthening regional integration and cooperation, and developing human capital. It is important that African countries work together and share expertise. Although they need to work closely with partners in the North and from other developing countries and emerging economies, African countries must coordinate their activities and take a long-term strategic view on building vaccine manufacturing capacity through scientific cooperation, technology transfer, developing human capital, and nurturing value chains.

Although the severe socio-economic effects of a selfish global response to the pandemic were felt throughout the developing world, this book focuses primarily on South Africa. The book is divided into 13 chapters. Chapter 2 situates the COVID-19 pandemic against the backdrop of the history of pandemics and economic crises. This includes the Spanish flu in 1918, which coincided with World War I and the various economic crises up to the global financial crisis of 2008. It studies the role of the state in responding to these various crises using social and economic policy tools. It also assesses ways in which the state governs the markets during times of crises, and its role in promoting innovation in the economy.

Chapter 3 discusses how crises can act as a spur for long-term social and economic change. In particular, it discusses the idea of building state capacity and capability for resilience, and how public institutions can be shored up with necessary resources and capacities to respond to crises situations. Further, the chapter reviews various government's strategies and underlines their shortcomings. The key contribution of this chapter is to lay out insights on the institutional quality required across the different spheres of the state, as well as the necessary intervention to improve innovation in public institutions.

Chapter 4 looks at how we might rethink industrial policies in the wake of the COVID-19 pandemic, especially to focus on supporting new economic entrants and promoting strategic rivalry in concentrated sectors of the economy and promoting innovation and resilience in the economy broadly. An important argument advanced in this chapter is that competition and industrial policies should not be seen—or deployed—apart from each other, but in a coordinated and mutually reinforcing fashion. The COVID-19 pandemic and attendant economic crisis, the authors observe, should provide an opportunity for new forms of regulation to curtail abuse of dominance by large firms, with competition policy playing a proactive role in shaping the economy. Business unusual, post-COVID-19, should entail stimulating innovation and transformation at sector level.

Chapter 5 provides an important background to historical factors that have shaped the South African economy up to the onset of the COVID-19 pandemic. Apart from its overview of the country's developmental strategies over a long period of time, it also pays close attention to the structure of public spending and the dynamics of debt accumulation. The chapter provides policy options that can offer a way out of the country's growth constraints through strengthening the institutions of macro-policy coordination.

Chapter 6 demonstrates that fiscal policy post-2009 has clearly not yielded the desired effects. The macro-economic stability as captured by output growth and employment growth has been elusive, according to the author, and with widening budget deficit, and increases in government debt growth and the debt-to-GDP ratio. The chapter makes a case for tighter co-ordination between monetary and fiscal policy, and argues that for this to be successful, a low and stable inflation environment is necessary. It further contends that there are various other central bank balance sheet tools over and above bond purchases that can be used to contribute to fiscal sustainability, price, financial, and macro-economic stability.

Chapter 7 makes a strong case for the overhaul of social security and protection architecture in South Africa in the wake of COVID-19. It contends that COVID-19 pandemic has revealed the inadequacy of social security and protection measures in society and provides the rationale for the provision of a robust social infrastructure in the face of market forces that create winners and losers. This chapter also probes the reasons for inadequate social protection since 1994, a reality the author credits for the vulnerabilities suffered by the underprivileged sections of the population during the pandemic. The chapter concludes with recommendations for a comprehensive social security system in South Africa.

Chapter 8 discusses the potentially transformative role of state-owned enterprises and development finance institutions in the economy. Before examining the role of these entities in generating economic dynamism, the chapter casts a critical spotlight on their performance and makes a strong case for reform, starting with their consolidation under a single legal and policy instrument. It also argues for greater coordination between the state-owned enterprises and development finance institutions to build synergies and augment their capabilities for greater impact. The chapter also offers some comparative perspective which could serve state-owned enterprises better under the COVID-induced crisis conditions in the economy.

The centrality of the energy crisis to South Africa's economic woes, compounded by the state of crisis of the state-owned electricity utility, has warranted two chapters on addressing the country's energy transition. Chapter 9 focuses on the stranglehold on growth that the resource-intensity of the South African economy creates. It contends that in large part the state-owned energy utility, Eskom, bears significant responsibility for economic underperformance. The chapter makes a case for South Africa to accelerate its transition to renewable energy and reap the benefits that will come through new economic activities and creation of new job opportunities in a sector that is environmentally clean. The authors build a compelling case for a sustainable development pathway through decentralized electricity generation and distribution to households and businesses. Restructuring the utility is, according to the authors, a critical step toward creating a sustainable growth path through greater utilization of renewable energy.

Chapter 10 complements the previous chapter on challenges of energy transition in South Africa and explores Africa's possibilities in utilizing its energy resources through better management of energy transition to renewable energy. The central message of this chapter is that Africa's developmental future lies in fixing capacity weaknesses in the energy sector, enabling citizens to access energy sustainably, and in building regional energy value chains. The chapter explores possibilities for regional value chains that could facilitate structural and just energy transition. The chapter enriches the debate on energy transition by drawing upon international experiences and reflecting on policy actions that African countries need to take to manage their energy transition while responding to socio-economic challenges.

Chapter 11 discusses COVID-19 through the lens of digital changes in society. It notes that even though the pandemic presents developing countries with an opportunity to accelerate digital inclusion, very few have been able to take advantage. The central argument of the paper is that digital access should be seen as an entry-level condition for digital inclusion—and not the end goal. Usage, or uptake, along with the complementary impact should be the ultimate goal.

The bulk of the chapter is on the strategies required to narrow the digital divide across income levels, urban–rural stratification, and age. Importantly, it analyzes the force that drive digital divide and proffers recommendations on the policy tools required for narrowing the digital divide.

Chapter 12 looks at how COVID-19 has shaken social contracts and makes a compelling case for why it is important to strengthen social contracts in times of crises. The deep inequalities that COVID-19 shone a spotlight on, especially during the periods of hard lockdown measures, make well-designed social contracts necessary and urgent. The glue that holds governments and the public together is trust. Weak social contracts are a sign of erosion of public trust. This chapter articulates a paradigm of social contract during crisis periods that utilizes disasters as triggers to build greater resilience. The chapter offers a clear policy lens that decision-makers can use to respond better to crises, especially to navigate complexity and strengthen social contracts for resilience. Drawing on examples from around the world, the chapter also lays a pathway on what countries can do better to limit the risks posed by COVID-19.

CHAPTER 2

Reconstruction in the Aftermath of Global Health and Economic Crises: Historical Lessons for South Africa

Mzukisi Qobo, Mills Soko, and Nomfundo Xenia Ngwenya

Introduction

Countries that have gone through tough economic times, either due to health pandemics, economic depression, or wars, have managed to learn from adversity and rethink their development models. This chapter draws lessons from different countries' experiences responding to health and

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economic crises and offers a reflection on South Africa's own history, particularly the state's role in responding to adversity. Historically, the state has played a leading role in using crises to spur social and economic change, often through building new institutions, legislative or regulatory frameworks, and recasting its relationship with the markets. Crises often create pressure for collective action, expressed in the state's activities, to ameliorate social and economic ills. At times, new political regimes are established to replace those that are considered to be ineffective or to serve narrow interests.

In this chapter, we examine how, at various historical points, crises have strengthened some states and led to the creation of new institutional and economic arrangements. The central aim of this chapter is to identify and draw historical lessons that South African policymakers can deploy as a framework for shaping future economic policy and strategy. It bears mentioning, nevertheless, that context matters in undertaking this analysis, especially if decision-makers know how to translate such lessons into useful policy actions. The various crises under discussion occurred in unique and divergent economic and institutional contexts, significantly dissimilar to those of contemporary times. The measures were also not perfect, but effective. As such, not every lesson from the past is necessarily translatable to public policy action today, precisely because contexts and the means differ. The exercise we undertake here is merely for the purpose of delineating policy options that decision-makers can use. The cases that we have selected are countries in which the state demonstrated a sense of mission and agility. They are by no means perfect cases, and lessons cannot easily be implanted in South Africa unless decision-makers show a willingness to adapt those lessons that suit their social and political context.

The chapter consists of three sections. The first and second sections examine health and economic crises respectively in a historical context. These crises are discussed in turn, assessing their causes and effects, and the policy responses they elicited. The health crises under discussion are the Spanish flu of 1918–1920, and the Severe Acute Respiratory Syndrome (SARS) epidemic of 2002–2004. The Spanish flu had the broadest global reach and highest fatality rate in modern history. SARS is analyzed as the most recent health crisis that bore similarities to COVID-19. The analysis will demonstrate how some of the worst-affected Asian countries used SARS to rectify their policy shortcomings and draw lessons to prepare for future crises. To varying degrees, these epidemics have had significant socio-economic consequences and triggered major responses by the state. Importantly, the analysis explores the interplay and nexus between the outbreak of the pandemics and the ensuing economic crises.

The economic crises that are the subject of analysis in this paper are the global depression of 1929 and the global financial crisis of 2008/2009. These economic crises prompted national governments to embrace and enact unorthodox fiscal and monetary policies to revive their troubled economies. Nation-states became powerful forces to drive social and economic change, as well as to shore up institutions. Section four distills the salient lessons for South Africa of how nation-states responded to the aforementioned health and economic crises. Lessons gleaned about these crises highlight how the South African government can capitalize on the COVID-19 crisis to catalyze and accelerate the enactment of long-delayed socio-economic reforms, including ramping up the public health system. The next section focuses on the Spanish flu.

The Spanish flu (1918–1920) and South Africa

The Spanish flu was an influenza virus that attacked the respiratory system. It was first observed in Europe, the US, and Asia, after which it spread to other regions such as Africa and Oceania due to the participation of laborers and soldiers from these regions in World War I (Tsoucalas et al. 2016). Although many historians attribute its origins to bats in China, more recent research suggests that it may have originated from pig farms in the American Midwest (Bass 2020). Its rapid spread is attributed to the drafting of young men, who left for World War I and carried the flu to Europe (Tanner 2018), and it would later spread through North America, South America, Asia, and Africa. Owing to the absence of rigorous statistics, data on the mortality rate of the flu varies significantly. The lowest range places the toll at 17.4 million (0.95% of the world population), the middle range at 24.7–39.3 million, and the high range at 50–100 million—2.7 to 5.5% of the world population (Tsoucalas et al. 2016).

The Spanish flu had a negligible effect on the stock market, because four years of World War I had had a dampening effect on stock market activity. Similarly, the war had severely disrupted global supply chains, thus minimizing the effect of the pandemic on global supply chains (Taylor 2020). It is difficult to draw a direct link between the Spanish flu and the Great Depression, which followed nine years later. However, some