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Briefing Note: South Africa's emerging recovery strategy

From the day the lockdown started, government has contended that South Africa cannot simply go back to pre-pandemic days, when growth was already slow and inequality persistently high. Instead of a narrow recovery, then, it called for reconstruction, addressing the structural constraints on inclusive growth.

There is, however, a huge gap in how different groups define and prioritise the structural constraints to growth. Three main perspectives have emerged.

1. Business organisations have focused their proposals on improving infrastructure and cutting red tape for formal enterprise. As a rule, they are clear on the need to fix electricity and to a lesser extent rail transport by bringing in more private suppliers. In contrast, they are generally coy about which regulations should be streamlined. The main issues appear to be difficulties in dismissing workers for disciplinary and productivity issues; getting visas for skilled people and tourists; meeting B-BBEE certification requirements in order to supply government; and the delays and red tape needed for most licences required to operate, from water to mining to rezoning to the myriad municipal mandates.
2. Industrial policy proponents inside and outside of government typically argue that the economy can only achieve sustained growth if it expands manufacturing. Exactly how to achieve that aim remains unclear. A critical question is how to leverage mining in this context – should government simply redirect its current support for the value chain, which centres largely on dedicated Transnet ore and coal lines plus below-cost electricity for refineries? Or should it promote beneficiation of mining products and hope that will ultimately boost downstream manufacturing? In either case, a core task is to ensure that mining rents are captured appropriately, whether through taxes to finance new activities or through cost-plus pricing for domestic users. A second challenge is to balance the allocation and pricing of infrastructure so as to promote diversification rather than simply further entrenching the dominance of mining. For instance, proposals to subsidise mining refineries using coal-fuelled electricity seem unlikely to promote more advanced or inclusive manufacturing.
3. A third perspective argues that the profound inequalities left by apartheid are the main blockage to sustained growth, since they foster contestation and inconsistency in economic policy and limit domestic demand. In this view, long-run economic development depends on building the middle class by addressing the factors that reproduce inequality – notably around access to quality education; decent housing near to economic opportunities; market and infrastructure systems that remain largely unsupportive of small businesses; and profoundly inequitable work organisation in most workplaces, with the associated pay gaps.

In practice, these divergent viewpoints have resulted in broad consensus on the urgent need to fix the electricity system and promote localisation, although how to achieve either in detail remains somewhat contentious. Moreover, everyone seems to agree on the need to expand investment in infrastructure and limit red tape. They disagree profoundly, however, on whether the resulting measures should centre on reducing the cost of doing business for the established

private sector, or on upgrading facilities for poor communities and emerging business. Finally, vehement disagreements remain about key measures required to build the middle class, especially to ensure more equitable education, workplaces and pay; densification of urban areas; and a massive increase in support for small business that would include funding, access to improved infrastructure, and upgraded technical support and market systems.

The government's practical take on recovery vs reconstruction emerged in the past month from two core initiatives, namely Operation Vulindlela (a joint project to drive key recovery projects between the Presidency and the National Treasury) and the 2021/22 budget. Key elements of these programmes include the following.

- A strong commitment to improving infrastructure for established businesses, especially around electricity, water and transport. In terms of red tape, Operation Vulindlela also prioritises reducing hindrances to visas for skilled personnel and tourists.
- The budget anticipates an overall decline in spending in real terms, which it hopes to offset for infrastructure through public-private partnerships and ring-fencing some infrastructure spend. In constant rand terms, government spending will be 3% lower than in 2019. Government investment will, however, climb by 15% compared to 2019/20, rising from 3.4% of total expenditure in 2019/20 to 4.1% in 2021/22, while other spending contracts.
- The budget reduces spending on some major programmes required to build the middle class, including a cut of 1% in education compared to 2019 (with the population growing 1.5% a year), and reductions of 10% in housing and 6% in land reform. Within housing, funds are shifted to informal-settlement upgrading, which is certainly desirable but militates against efforts to densify unless land is released closer to industrial and urban centres (golf courses, anyone?) Growth in funding for small business through the Small Enterprise Finance Agency (sefa) almost doubles, but off an extremely small base. Government plans to provide R1.2 billion rand in 2021/22; for comparison, the Industrial Development Corporation as a whole disbursed R15 billion in 2018.
- The budget cuts spending on social grants by eliminating the COVID-19 Special Grant in April (it reached six million destitute individuals), and by holding increases on old-age pensions and disability grants below inflation. Child support grants, which pay around a quarter as much as the old-age pension, will increase at inflation. As a result, spending on social grants as a whole will return to the 2019 level of 3.7% after climbing to 4.5% in 2020.
- Neither the budget nor Operation Vulindlela make commitments on addressing exclusionary systems in the workplace or the impoverished labour-sending regions. The budget plans to cut public service remuneration by around 2% in real terms, mostly by eliminating the annual increment (but not annual notches) for public servants. This measure will aggravate inequalities because the public service is the main route into the middle class for most working-class households, and especially for black women and people in the historic labour-sending regions.
- Government has not indicated that it will take any action to ensure that upstream producers in the steel, poultry and chemicals value chains will be pressured to mitigate prices so as to promote downstream manufacturing.