TIPS
TRADE & INDUSTRIAL POLICY STRATEGIES

POLICY BRIEF: 1/2023

Uncertain responses: Contrasting industrial policy during the COVID-19 pandemic and loadshedding

OVERVIEW

South Africa's official responses to two far-reaching crises – the COVID-19 pandemic from 2020 and escalating loadshedding in 2022 – underscored a profound, albeit unacknowledged, ambivalence about industrial policy. That reality emerged even though the democratic state has consistently called for economic reconstruction.

This policy brief summarises the divergent strategies, and then seeks to explain the divergence in priorities and scale between the responses to the two crises. It finds that government agencies could align around industrial policy initiatives on a disruptive scale if, as in the pandemic, those initiatives mirrored policies adopted in the Global North, and did not impose large costs on powerful stakeholders. More commonly, however, as with loadshedding, economic reconstruction requires innovative, tailored solutions and imposes significant burdens on powerful companies and institutions. In these circumstances, government interventions have proven modest and often incoherent.

Trade & Industrial Policy Strategies (TIPS) supports policy development through research and dialogue. Its areas of focus are industrial policy, trade, inclusive industrial policy, and sustainable development.

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THE ECONOMIC RESPONSE TO THE COVID-19 PANDEMIC

Following the pandemic lockdown in March 2020, the government initiated large-scale programmes to support businesses, workers and historically marginalised groups. In October, it supplemented these measures with an Economic Recovery and Reconstruction Plan (Presidency 2020; see also Makgetla 2021).

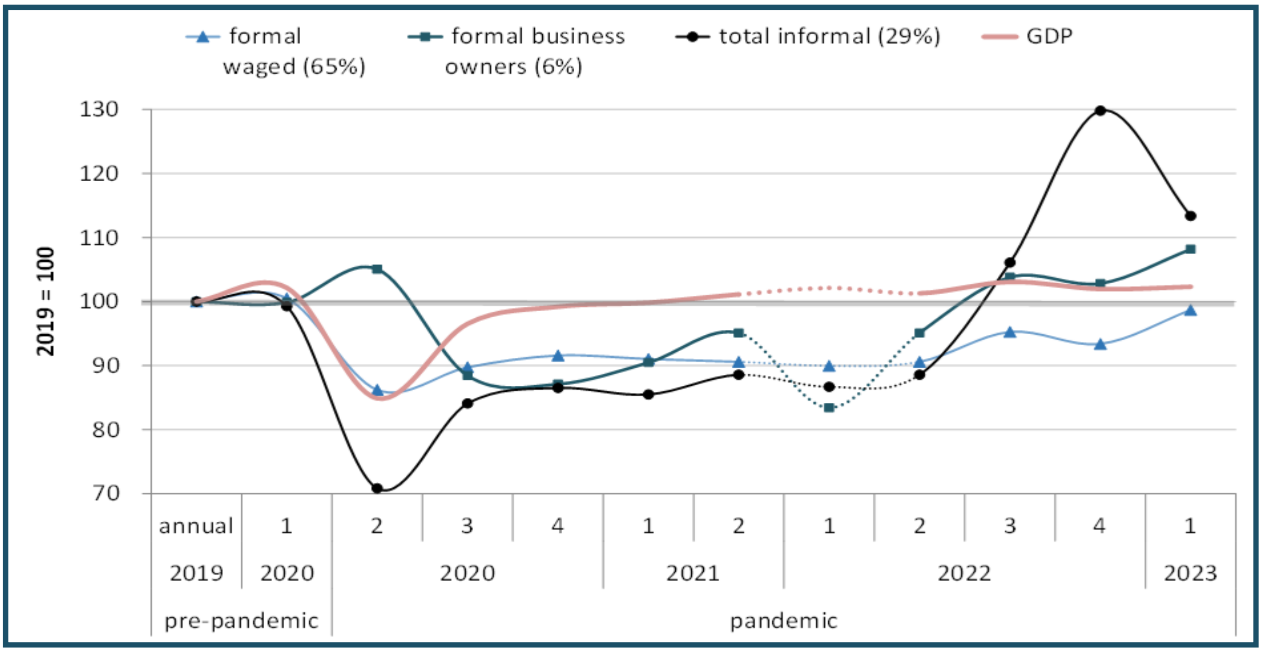
Starting in May 2020, the government drew on the extraordinarily large surpluses at the Unemployment Insurance Fund to assist formal employers and their employees after the lockdown began. In mid-2020, the programme supported around four million formal workers (a third of all formal employees) and 500 000 formal businesses (two thirds). Informal enterprise did not participate in the Unemployment Insurance Fund and therefore did not benefit. The outlays helped limit formal business closures through 2020. It did not prevent large job shedding, but job losses remained proportionately smaller in the formal sector than the informal sector (Graph 1).

In addition, the government let the mines and agriculture, and their support industries, remain open during the initial lockdown, with stronger health and safety measures. It set aside R1,5 billion to support agriculture, hospitality and creative work, although payments were often delayed and contested. Agriculture got the lion's share of these funds. Finally, the Department of Trade, Industry and Competition (the dtic) promoted local production of medical equipment and pharmaceuticals for the pandemic, including personal protective equipment, sanitisers, ventilators and vaccines. Although some of these initiatives ended up providing inappropriate or unneeded goods, overall they helped sustain manufacturing and develop new competencies.

Complementing these industrial-policy measures, the government significantly expanded support for jobless people during the pandemic. Most important, it introduced a modest (R350 a month) social grant for unemployed working-age people. In mid-2020, 3,5 million people received the grant; at the start of 2023, the figure was seven million, or around 15% of the population.

An unfortunate natural experiment underscored the importance of the new grant for social solidarity and, by extension, a conducive environment for industrialisation. The government terminated the grant in the first half of 2021. A few months later, large-scale protests and looting emerged, temporarily stalling the economic recovery. In response, the government reinstated the special grant. The National Treasury still hoped to introduce a new system to moderate spending on household transfers from 2024/25.

Graph 1. Indices of private employment in formal and informal sectors, number of formal business owners and GDP, 2019 and quarterly from 2020 to mid-2021 and second to fourth quarter in 2022 (a) (figures in brackets are a share in total private non-domestic employment in fourth quarter 2022)



Note: (a) Quarterly employment and business ownership figures are not seasonally adjusted. Response rates for the Quarterly Labour Force Survey were exceptionally low in the second half of 2021, when the survey was only telephonic due to the pandemic. Figures for 2019 average the four quarters. *Source:* For employment and business data, calculated from Statistics South Africa. Labour Market Dynamics 2019. Electronic dataset, and Quarterly Labour Force Surveys. 2021 and 2022. Electronic datasets. Downloaded from Nesstar facility at www.statssa.gov.za. For GDP, calculated from Statistics South Africa. GDP P0441 – 2023Q1. Excel workbook. Accessed at https://www.statssa.gov.za/?page_id=1854&PPN=P0441&SCH=73562 in June 2023.

LOADSHEDDING

In contrast to the pandemic response, the national strategy on loadshedding barely mentioned industrial policy aims. Yet loadshedding devasted the economy. The number of hours of foregone electricity soared to 2 500 in December 2022, up from less than 100 in January. Altogether, loadshedding in 2022 was over four times as high as in 2021. (Pierce and Le Roux 2023:110ff) In the fourth quarter of 2022, it contributed to a 1,3% decline in the GDP. The formal sector lost both jobs and businesses (Graph 1).

In contrast to the pandemic, the government's official strategy did not focus on mitigating the devastation for the economy and working people. Instead, it centred on fixing the national grid, which admittedly would take several years. The strategy's sole initiative to help business and households in the interim was a pledge to "unleash businesses and households to invest in rooftop solar" (NECOM 2023:3) As of January 2023, however, it only reported work on drafting regulations to make it easier for households to sell electricity to the grid.

The National Treasury and the dtic initiated subsidies for investment in off-grid electricity in early 2023. They effectively targeted only formal businesses and higher-income households. That contrasted sharply with the prioritisation of working people and marginalised communities in the pandemic response.

The 2023/24 budget, published in February 2023, included income tax incentives for off-grid solar worth R9 billion, split between businesses and households. Only relatively high-income households and formal businesses pay income tax, however, so working-class communities were unlikely to benefit much. Moreover, the National Treasury limited the tax benefits to R40 000, based on the estimated cost of 10 panels, with neither a battery nor an inverter. Treasury also planned to draw on a new R8-billion "bounce back" facility to guarantee relevant loans for small and medium enterprise; provide credit directly to commercial banks to support the leasing of solar equipment; and finance working capital for small businesses to install solar. The reach of these schemes would depend on the loans' eligibility criteria and conditions, which Treasury expected to publish only in May 2023.

In March 2023, the dtic reported that it planned to roll out eight initiatives to help businesses deal with the costs of loadshedding. Its efforts mostly aimed to reduce regulatory obstacles to off-grid generation. In addition, the department was working with its development finance agency, the Industrial Development Corporation, to provide R1,3 billion in financing, mostly for businesses to reduce electricity intensity and to invest in off-grid generation. The dtic also aimed to promote local production of inputs for renewable generation, and to prevent equipment suppliers from imposing excessive price hikes to take advantage of soaring demand.

The pandemic demonstrated that it was possible to rally government agencies behind large-scale, disruptive initiatives. In contrast, loadshedding underscored that this kind of strong industrial-policy response to economic crises was by no means guaranteed.

EXPLAINING THE DIVERGENCE

The economic strategies adopted in response to the pandemic and loadshedding underscore the unevenness of social and political support for industrial policy. The pandemic demonstrated that it was possible to rally government agencies behind large-scale, disruptive initiatives. In contrast, loadshedding underscored that this kind of strong industrial-policy response to economic crises was by no means guaranteed. Instead, even in a national economic crisis, risk aversion and path dependency could block coherent strategies to achieve reconstruction.

The difference in the two responses reflected a variety of factors. From a political-economic standpoint, two mechanisms stand out.

1. The pandemic was widely recognised as a global crisis. The lockdowns in March and April 2020 supplied a clear starting point; an undisputed and exogenous source; and unarguable impacts on the economy. In this context, governments and multilateral agencies from the Global North normalised measures to support business and workers on an unprecedented scale. The resulting global hegemony made it easier for policymakers, business spokespeople and high-income taxpayers in South Africa to endorse similar initiatives, despite the huge disruption and costs. In contrast, loadshedding was a uniquely South African problem that escalated gradually over a decade. It proved difficult for government agencies to agree that, like the pandemic, it constituted an economic crisis that required rapid, huge, risky and disruptive industrial-policy responses.
2. The relative power of the groups bearing the cost of the crisis response varied significantly between the pandemic and loadshedding. The main opposition to the pandemic measures emerged from the companies that managed the surplus for the Unemployment Insurance Fund. In contrast, efforts to mitigate the cost of loadshedding ran up against Eskom, the municipalities and coal mines. They anticipated that off-grid solutions and purchases from private generators would ultimately eat into their revenues. The resulting contestation fuelled delays in adopting measures to reduce business and household dependence on the increasingly unreliable national electricity system. Moreover, it framed the priority response as fixing the national system rather than meeting the needs of citizens and promoting inclusive industrialisation.

Responses to the far-reaching crises of the past three years underscore that governments will only undertake strong industrial-policy measures when there is a sufficient coalition to support them. That in turn depends both on the ability to conceptualise and communicate strategies to the majority of voters, and to manage resistance from the main cost-bearers. In South Africa, however, the profound inequalities left by apartheid make it harder to drive through the kinds of disruptive policies required for an effective industrialisation effort.

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