Fiscal Crisis – South Africa’s Variety of Capitalism

Lumkile Mondi

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Agenda

• SAs fiscal crisis a VOC?
• Radical Economic Transformation
• Role of the state
SA fiscal crisis as a VoC

• Why has South Africa failed to integrate historically disadvantages South African and create dynamic competitive capabilities?

• In this presentation I critically apply the varieties of capitalism (VoC) framework to SA’s recent experience in using SOEs as engines of economic development.

• In particular, I evaluate the ‘hierarchical market economy model’ (HME) of Schneider (2007) and Schneider and Soskice (2010), which concentrates on the interaction between large business groups, dominant political party and civil society (atomized labor markets).

• The role of the state and its impact on the incentives that firms face at the heart of the analysis of Sas variety of capitalism.
South Africa

Unemployment, poverty and education

Unemployment

- Unemployment rate dropped from 29% Two key trends
- Discourage work seekers,
- High rate of youth unemployment, 58.2% of unemployed are aged between 15-34 years.

Education

- Poor quality of education
- Literacy and numeracy test scores remains low by African and global standards
- Government dedicates 6% of GDP to education
- SA's teachers are amongst the highest paid in the world

Poverty

- SA considered an upper-middle income country
- 55.5% of population lives under the poverty line of R992 ($75) per person per month

Governments plan

- NPC plans to reduce the number of people living under the poverty line to zero by 2030
- Create 11 million jobs in 20 years
- Improve education system
Main budget primary deficit and debt outlook

- Real main budget non-interest spending grows at 1.2 per cent in 2020/21, 0.1 per cent in 2021/22, and -0.2 per cent in 2022/23
- Main budget primary deficit narrows to 1.4 per cent of GDP in 2022/23
- Debt-to-GDP reaches 71.3 per cent in 2022/23 and, without additional measures, will continue to grow

Gross debt-to-GDP outlook

Main budget primary balance*

*Excluding Eskom financial support and transactions in financial assets and liabilities
Fastest growing areas of spending

- Financial payments (mostly support for state-owned companies), debt-service costs and wages are the fastest-growing areas of expenditure

### Average nominal growth in consolidated spending, 2020/21 – 22/23

<table>
<thead>
<tr>
<th>Category</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt-service costs</td>
<td>13.7</td>
</tr>
<tr>
<td>Health</td>
<td>7.0</td>
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<tr>
<td>Community development</td>
<td>7.0</td>
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<tr>
<td>Economic development</td>
<td>6.9</td>
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<tr>
<td>Social development</td>
<td>6.1</td>
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<tr>
<td>Learning and culture</td>
<td>5.9</td>
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<tr>
<td>General public services</td>
<td>5.0</td>
</tr>
<tr>
<td>Peace and security</td>
<td>4.4</td>
</tr>
</tbody>
</table>
South Africa’s GDP growth trend has continued to decline and debt has risen

- Declining trend growth reflects many factors, including policy uncertainty, electricity supply shocks, lower investment levels, inefficient SOC investments and poor education outcomes
- Relative competitiveness has declined due to slower implementation of reforms than our peers
- Since the global financial crisis, government has run large budget deficits, raising its borrowing and making the increase in South Africa’s debt-to-GDP ratio among the highest of peer countries

### Long-term GDP growth


### Ten-year change in debt-to-GDP ratio

- Average

![Bar chart showing ten-year change in debt-to-GDP ratio for various countries including Guinea, Côte d'Ivoire, Philippines, Turkey, India, Hungary, Peru, Indonesia, Poland, Thailand, Mexico, Sri Lanka, Pakistan, Myanmar, Malaysia, Malawi, Burkina Faso, Colombia, Morocco, Chile, China, Egypt, Brazil, Belarus, South Africa, Argentina, Croatia, and Ukraine. South Africa has the highest debt-to-GDP ratio of 30.2 percent.]

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**Note:** The data and analysis are based on the information provided in the document. The graphs and charts illustrate the trends and changes mentioned in the text.
Institutional Change (Hall & Thelen) – Political Settlement (1990 -94)

• When do the institutions of the political economy change?
• What factors drive change?
• Are changes in the international economy enforcing institutional convergence on the developed economies?
The Political Settlement (Zalk, 2017)

• Bargains forged over and into South Africa’s transition to democracy coalesced to shape post-apartheid institutions of industrial restructuring and

• Strategic orientation of historically white conglomerate groups and emerging black capitalists, impacted on industrial capabilities and the consequent linkages and multipliers transmitted through the economy.
Fragility of the political settlement

• The politics of money in SA e.g. (Hitachi/Chancellor House.
  – Total contract value (2007) – R38.5-billion
  – Local content value @ 60% R23.1-billion
  – Profit @ 1.8% – R231-million – R1.8-billion
  – Chancellor’s share @ 25% – R58-million – R462-million
  – Chancellor’s dividend post-tax – R38-million - R302-million
  – Escalated @ 20% (2010) – R45-million – R363-million
Institutional Voices

• Zwelinzima Vavi the GS of Cosatu: “The problem with this is that the ANC will not be able to ward off genuine concerns that it might have decided to accept the extraordinarily high tariffs imposed on the poor and industry because it stands to benefit. If it is true that the ANC company (Chancellor House) has invested in Eskom, then God help us all” Mail and Guardian (29 October 2010).
Institutional Voices

• Gwede Mantashe, the current minister of minerals and energy who was the chairman of the South Africa Communist Party and a close ally of Vavi, launched a blistering counter-attack, accusing Cosatu of taking part in a “malicious debate” and adopting “a populist stance” (Mail & Guardian, 2010).
Radical Economic Transformation

“a fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy in favour of all South Africans – especially the poor, the majority of whom are African and female – as defined by the governing party” (Zuma, 2017)
Mobilising factors

• Radical economic transformation referred to an ambitious project, not simply to create black-owned small- and medium-sized enterprises, but to control the commanding heights of the economy.

• Here was a vision of economic transformation that was not contingent on the reform of white business and that did not depend on the goodwill of whites to invest in the economy, to employ black people and to treat them as equals.
Features of RET

- Radical economic transformation required the following:
  - The exercise of control over state procurement budgets.
  - The repurposing state institutions to focus on economic transformation, apart from their official mandates.
  - Displacing established white-managed and -owned companies from a variety of sectors.
  - The SOEs would be at the forefront of this initiative.
Government budgets consistently overestimated growth
Several state-owned companies are facing difficulties

- Several large state-owned companies are in crisis as a result of governance failures, poor operational performance and resultant unsustainable debt burdens
- SOCs debts grown alongside government debt
- Government has increased spending to meet its obligations for guaranteed debt, but decisions are required to manage the ongoing impact of these entities on the fiscus
- A programme of reforms is being enacted to strengthen governance and operations at these entities, and to stabilise those in financial distress
Fiscal Crisis and Radical Economic Transformation

• Radical economic transformation was a political and economic project aimed at rent seeking.

• It required the breaking down of key institutions and acting outside the SA constitution in order to succeed.

• An SOE, Eskom, by revealing how Eskom was hollowed out until it could no longer keep the lights on.
The role of the state in SAs VoC

• South Africa’s failure to build an economy that benefits all economic sectors and its people may signal the usefulness of a firm-based approach.

• Developing a model that incorporates the influence of the state in the analysis of the firms’ strategic behaviour (Sanchez-Ancochoa, 2010)
  – the state contributed to shaping the nature of the private sector.
  – the expansion of the state became a central feature of SA’s political economy
  – The state has also contributed to the growth of other social actors, which in turn have influenced public policy and the accumulation of human capital.
  – In this way, SA’s model of capitalism shares similarities with what Vivien Schmidt (2003) has called the state-led market economy of Southern Europe such as France.
Thank you