PRESENTATION TO SACP
JACK SIMONS PARTY SCHOOL

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DANGER OF A SINGLE NARRATIVE

There is only one view — the neoliberal (or neoclassical) view — that totally dominates debates on the economy in SA. Structural reforms and austerity

Keynes invented macroeconomic policy and the use of counter-cyclical tools (fiscal and monetary policies) to stimulate aggregate demand.

Heterodox economists bring attention to a wider range of microeconomic policy tools that can be used to achieve macroeconomic policy objectives.

Modern Monetary Theory (MMT) economists break down the artificial separation between monetary and fiscal policy. A central bank can finance government spending.

NATIONAL VISION FOR GROWTH AND DEVELOPMENT

- Mobilising vision and plan (China, Malaysia, Japan, South Korea, Ethiopia)
- State capacity to initiate growth and development
- High rates of capital formation (35% to 50%)
- Human Development (education and health)
- Industrial upgrading
- Social Policy (extend social security to WAP, job guarantee, basic income)
- Macro-economic policy (wider range of policy tools than Keynes)

  - ✓ **Multiple tools** (exchange rate, state control of finance, reserve requirements, capital controls, prescribed assets, credit quotas, differential interest rates)
  - ✓ **Multiple targets and objectives** (inflation, unemployment, growth, sectors)
  - ✓ Inflation targeting (one target, one tool) is primitive
  - ✓ Close co-ordination of monetary, fiscal and industrial policies
  - ✓ Implications for mandate and independence of central banks

SOUTH AFRICA ECONOMY (1994 - 2019)

	GDP	GDP pc	Comments
1994 - 2019	2.7	1..0	GDP per capita 28.1% higher in 2019 than in 1994 (China 760% and India 300% over same period)
1996 - 2003	2.6	0.9	Slash and burn fiscal policies (cuts in capital spending) Sky high interest rates 15% – 21.85% (May to Aug 1998) **Unemployment doubled to 8m (40.6%) in March 2003 from 4.m (29% in 1995)**
2004 - 2008	4.8	3.2	World equities and commodity boom Expansionary monetary and fiscal policies. Interest rates dropped 650 basis points to 7% in June 2003. Government spending increased Investment to 23.5% in 2008 from 16% in 2003 **Jobs up 3.1m to 14.8m in December 2008 from 11.7m in March 2003. Unemployment rate fell to 28.7% from 40.6%**
2009 – 2019	1.4	0.1	**Lost Decade of Economic Development** Failure to recover from global financial crisis

WORLD GDP GROWTH (2009 – 2019)

SA underperformed all developing regions in world by large margin. Low growth is not due to global factors. Now a decade since the global crisis. Cannot be excuse for low growth

Region	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Ave**
World	(0.1)	5.4	4.2	3.5	3.4	3.5	3.4	3.1	3.8	3.7	2.9	**3.3**
Emerging Market & Dev. Economies (153)	2.9	7.4	6.3	5.4	5.1	4.7	4.2	4.1	4.7	4.6	3.7	**4.8**
Emerging & Dev. Asia (30)	7.5	9.6	7.9	7.0	6.9	6.8	6.7	6.4	6.5	6.5	5.6	**7.0**
Sub-Saharan Africa (45)	3.9	7.0	5.0	4.3	5.3	5.1	3.4	1.4	2.9	2.9	3.3	**4.0**
Middle East & Central Asia (31)			4.6	4.9	3.0	3.1	2.6	5.0	2.3.	1.9	0.9	**3.1**
Emerging & Developing Europe (12)	(3.0)	4.6	6.5	2.4	4.9	3.9	4.7	3.2	6.0	3.8	1.8	**3.5**
Latin America & the Caribbean (22)	(1.8)	6.1	4.7	3.0	2.9	1.2	0.1	(1.0)	1.3	1.1	0.1	**1.6**
South Africa	**(1.5)**	**3.0**	**3.3**	**2.2**	**2.5**	**1.8**	**1.3**	**0.6**	**1.3**	**0.8**	**0.4**	**1.4**
South Africa (pc)	**(2.7)**	**1.9**	**2.1**	**1.0**	**1.2**	**0.4**	**(0.1)**	**(0.8)**	**(0.1)**	**(0.4)**	**(1.1)**	**0.1**

SA INVESTMENT AND CONSUMPTION (2010 – 2013)

	2010	2011	2012	2013	Average
General Government	**(9.4)**	**4.1**	**7.3**	**6.4**	**2.1**
Public Corporations	(4.8)	(1.9)	3.8	6.6	0.9
Public Investment	(6.8)	0.5	5.3	6.5	1.4 **(12.7% up from 2010)**
Government Consumption	**3.0**	**2.8**	**3.5**	**3.1**	**3.1**
GDP	3.0	3.3	2.2	2.5	2.8
Tax surplus/shortfall	**43.3**	**1.6**	**(18.9)**	**2.9**	**28.9**

SA INVESTMENT AND CONSUMPTION (2014 – 2019)

	2014	2015	2016	2017	2018	2019	Average
General Government	**5.3**	**14.4**	**(5.5)**	**0.2**	**(4.4)**	**(9.8)**	**0.0** **Down 17.6% since 2015**
Public Corporations	(5.7)	5.1	3.7	(11.6)	(12.5)	(1.6)	(3.8) **Down 26.8% since 2015**
Public Investment	(0.1)	9.3	(4.6)	(6.1)	(8.5)	(5.5)	(2.6) **Down 22% since 2015**
Government Consumption	**1.7**	**(0.8)**	**2.2**	**0.2**	**1.9**	**1.5**	**1.1**
GDP	1.8	1.2	0.4	1.4	0.8	0.2	1.0
Tax surplus/ shortfall (bn)	**(9.9)**	**(14.4)**	**(37.1)**	**(55.8)**	**(62.2)**	**(69.0)**	**(248.4)**

CRISIS BEFORE THE CRISIS

Crisis of collapsing GDP growth and rising unemployment

- Unemployment increased by 4.4m since Dec 2008

- 10.3m unemployed (2.2m lost jobs in second quarter)
  - ✓ 46.3% for black Africans
  - ✓ 50.2% for black African females
  - ✓ 52.8% in Eastern Cape

- 64% poverty rate Black Africans (2015, Stats SA)

- Most unequal country in the world – Gini 0.63 (income) and 0.95 (income)

- Five years of declining GDP per capita (2015 – 2019)

- Two recessions on two years (2018 & 2019)

- Three consecutive quarters of declining GDP by March 2020 and was heading for third recession in three years (2020)

- 7 out of 10 quarters of declining GDP. 8 out of 10 quarters of declining investment despite 3 summits were pledges of R660bn were made

THE CURRENT CRISIS (27 March 2020- present)

Fourth phase of post-apartheid economy

- Witnessing shocks of crisis that could eviscerate the dreams of our liberation. At end of 2020 GDP per capita will be only 15% higher than 1994

- Crony corona capitalism and vulgar neoliberalism – obsession with inflation targets, irrelevant structural reforms and unprecedented austerity of R600bn - will deepen the depression and result in three years of declining GDP.

  - ✓ We will be barely richer than we were in 1994

- Unemployment heading towards 50% at which point whole society will be unviable. The social fabric will be irreversibly scarred

- Could take five years to reach 2019 levels of GDP (UNDP)

- The collateral damage could be with us for the next decade (NIDS CRAM)

COVID INFECTIONS AND DEATHS

	SOUTH AFRICA	SOUTH KOREA	JAPAN	VIETNAM	ETHIOPIA
Population	59.6m	51.6m	126.5m	95.5m	109.2m
Infections	702 000	23 312	84 461	1 126	88 434
Deaths	18 408	444	1 670	35	1 346
Daily Infections	1 928	91	1 346	2	600

ASIAN COVID RESPONSES

- Knowledge of previous pandemics (SARS and MERS) cannot replicate
- No correlation between severity of lockdowns and success
- Light lockdowns – Japan less stringent than Sweden – but success in bringing virus under control
- Lockdowns delay the spread – don't break transmission chain
- Not about culture - vibrant democracies, uncooperative churches which anti-government marches and defied social distancing
- Hand-washing, masks, social distancing and banning super spreader events prevent infections
- Decisive actions are public health measures implemented after a person gets infected – rapid testing, contact tracing, isolation of infected people and quarantines of close contacts who may not be infected

WHO (TEDROS GHEBREYESUS)

Rwanda’s progress is due to a combination of strong leadership, universal health coverage, well-supported health workers and clear public communications. **All testing and treatment of COVID 19 is free in Rwanda so there are no financial barriers to people getting tested** and when people test positive, they are isolated and health workers then visit every potential contact and test them for the virus

The trick for them now (some countries in Western Europe) is to really focus on identifying those clusters of disease, identifying new community transmission, and putting in place the kind of localised measures that can contain the virus, suppress the virus and reduce exposure and try to avoid if possible, having the country wide lockdowns that have done so much damage before

That does require a very sophisticated approach, it requires very localised data, very rapid turnaround of testing, fast investigation of clusters and the implementation of measures as localised as possible. Fast and effective response to flare-ups and shut down transmission as quickly as possible

STIMULUS PACKAGE (PRESIDENT RAMAPHOSA 21 APRIL)

Item	Above the line (On-budget) (Rbn)	Below the line (Off-budget) Rbn)	Total
Loan Guarantee		200	
UIF		40	
Job Creation and SMEs	100		
Tax Measures	70		
Grant	50		
Public Health	20		
Municipalities	20		
Total	**260**	**240**	**500 (10% of GDP)**

STIMULUS PACKAGE (SUPPLEMENTARY BUDGET: 24 JUNE)

Item	Above the line President	Above the Line (Supplementary Budget)	
Job creation and SMEs	100	6.1	No explanation how it would be spent
Total	**260 (5.1% of GDP)**	**36 billion (0.7% of GDP)**	

R260 billion cuts including R161 billion reductions in wage bill and R100 billion from allocations to provincial and local government (February Budget)

R101 billion budget cuts (June budget)

R250 billion austerity measures (tax increases and budget cuts) for 2022 and 2023

R600 billion austerity will result in unprecedented three years of declining GDP

STIMULUS PACKAGE: SUPPLEMENTARY BUDGET: JUNE 24)

Item	Below the line (Off-budget) (Rbn)	Total
Loan Guarantee	100bn then 67bn	Not really a stimulus R16 billion loans awarded Used guarantee to shit loans to prime clients who would have got without guarantee 75% white people No additionality Banks do not want to lend
UIF	50	Disbursed R50bn to 4 m employees

STIMULUS: TREASURY PRESENTATION TO PARLIAMENT 1 SEPT

Item	Above the line Rbn	Below the line Rbn	Total
Total	**Treasury 36** **(0.7% of GDP)** Covid allocations of 145bn (excl R19.6bn provisional allocations) allocation and R109 billion cuts Government only spent R18bn between April and August (12.4% of 145bn allocation) Decline in spend during Q2. there could be decline for the whole year	**UIF disbursed 50** **(1% of GDP)**	**86bn (1.7% of GDP)**

MANTRA OF GLOBAL STIMULUS PACKAGES

Go big, go early, go household

Equal to the expected shock to economy

Must be spent in the year in which the shock happened

RECONSTRUCTION AND RECOVERY PLAN

- R13.8bn employment stimulus to create 800 000 jobs
  - ✓ Part of 3 years R100bn project
  - ✓ 344 933 teaching and other assistants
  - ✓ 111 142 ECD centre support
  - ✓ All jobs created by March 2021
  - ✓ Average of R3 000 a month
- R5.9bn to extend the R350 COVID Grant (5.6m beneficiaries) for 3 months
  - ✓ Excludes R3.6bn a month Caregivers Grant (7 million beneficiaries and 95% women)
- Employment stimulus (R13.8bn) plus COVID grant (R5.9bn) = R19.7bn provisionally allocated in supplementary Budget. **NO NEW MONEY**

RECONSTRUCTION AND RECOVERY PLAN

- Identified 276 catalytic projects worth R2.3bn but only 50 projects worth R340bn were ready for implementation
- Infrastructure Fund will provide R100bn over next decade to leverage R1trillion of investment
  - ✓ Fund was announced in September 2018
- Does not address three issues
  - ✓ How to reverse five-year decline in public infrastructure and how to repair SOC and Eskom balance sheet
  - ✓ Why the Infrastructure Fund has taken so long to set up
  - ✓ Cannot have infrastructure-led recovery within the context of never-ending austerity budgets
- Structural Reforms - 11 000 GW over two years (impossible)

SA INC. BALANCE SHEET

LIABILITIES	
Net Loan debt	R2.9 trillion
Eskom	R454bn
RAF	R242bn
ASSETS	
PIC	R2.1 trillion (June 2020)
SARB Foreign Exchange Reserves	R1 trillion
Cash Balances	R260 billion

Trevor Manuel on Public Investment Corporation

It is important to note that the PIC makes investments predominantly on behalf of the Government Employees Pension Fund (GEPF).

Given that the GEPF is a defined benefit fund, it would be inappropriate to consider any returns accruing from such investments to be benefiting the beneficiaries. This is simply because the pension benefits are predetermined.

Such investments are essential to the extent that the employer [government] is able to meet its obligations to employees."

Today's Trustee, March 2005

Public Investment Corporation

Two ways of funding pensions

- ❑ **Pre-Funding (Fully Funded)**

  - ✓ Companies can go bankrupt so must be able to pay all pensions on the same day in the event that they close shop

  - ✓ PIC 108% funded. Obscene level of funding in country with high poverty compared with 90% target. Excess funding of R300bn

- ❑ **Pay-As-You-Go (PAYG)**

  - ✓ No scenario in which government can close shop and have to pay all 1.3m pensioners on the same day

  - ✓ Will always be teachers, nurses and policemen

  - ✓ Internationally, most government pension funds are not funded or partially funded

  - ✓ In SA, PIC was PAYG until late 1980s.

Public Investment Corporation

Two ways of designing pension funds

- **Defined Benefit**
  - ✓ Percentage of final salary and years of service
  - ✓ Workers do not benefit or loose if share price increases or decreases
  - ✓ Benefits specified upfront not related to contribution or fund performance
- **Defined contribution**
  - ✓ Based on contributions and performance of the fund

PIC ASSETS (Status Quo: Fully Funded)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue							
Employer Contributions	30.8	33.5	36.1	38.6	42.1	45.3	48.7
Employee Contributions	17.1	18.7	20.3	21.7	23.4	25.1	26.9
Total Contributions	**47.9**	**52.2**	**56.4**	**60.3**	**65.5**	**70.4**	**75.6**
Investment Income	49.9	54.0	68.5	69.0	69.5	72.0	84.2
Total Revenue	97.8	106.2	124.9	129.3	135.0	142.4	159.8
Total Expenditure	43.2	57.9	85.8	83.1	88.3	94.9	102.5
Surplus	**54.6**	**48.3**	**39.1**	**46.2**	**46.7**	**47.5**	**57.3**

PIC ASSETS (50% Investment Income)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue							
Employer Contributions	30.8	33.5	36.1	38.6	42.1	45.3	48.7
Employee Contributions	17.1	18.7	20.3	21.7	23.4	25.1	26.9
Total Contributions	**47.9**	**52.2**	**56.4**	**60.3**	**65.5**	**70.4**	**75.6**
Investment Income	25.0	27.0	34.3	34.5	34.8	36.0	42.1
Total Revenue	72.9	79.2	90.7	94.8	100.3	106.4	117.7
Total Expenditure	43.2	57.9	85.8	83.1	88.3	94.9	102.5
Surplus	**29.7**	**21.3**	**4.9**	**11.7**	**12.0**	**11.5**	**15.2**

DEBT TO GDP RATIOS

REGION OR COUNTRY	DEBT TO GDP
World	82.9
Advanced economies	103.6
Emerging and Middle Income	53.4
India	69.8
Brazil	87.9
Argentina	86.3
Pakistan	72.1
Egypt	92.6
Angola	80.5
Mozambique	110.5
South Africa (Gross) March 2020	63.5
South Africa (Net) March 2020	58.4

SA Inc. OPTIONS

1. Borrowing

- World average debt to GDP ratio will increase by 19 percentage points to 102% of GDP (IMF)
- Every country will have exactly the same shock to GDP and tax revenues
- SA debt to GDP ratio will increase by 18 percentage points to 81.8% of GDP
- In relative terms SA will be exactly where it was before the crisis.
- No tipping point at which rising debt ratio results in economic collapse
- Treasury can issue more debt.
- SARB and PIC can be on standby to purchase

SA Inc. OPTIONS

Reserve Bank

- Cut interest rates by 275 basis points
- Purchase government debt
  - Secondary market (SARB limited QE of R30bn has bossed bond market and reduced cost of capital
  - Reduce the cost of capital

No reason why SARB cannot cut rates to zero

SA Inc. OPTIONS

Reserve Bank

- A sovereign state which issues its own currency cannot fail to meet its obligations in its own currency unless it chooses to do so – unique privilege that 90% of debt is domestic
- R1 trillion foreign exchange Reserves
  - One year of forecast imports (Nedbank) imports vs benchmark of three months
  - Can release R500 billion
- Recapitalise DFIs: IDC, Land Bank, SEFA (R100bn)
- Developmental windows – for banks to lend to priority sectors
- Monetary finance – financing of Eskom debt and government spending

SA Inc. OPTIONS

2. Reduce PIC funding to 50%

- Write off state debt of R500bn
- Write off SOC debt, including Eskom debt, of R200bn
- Use cash of R140bn to fund fiscal stimulus and convert assets into infrastructure

Release of assets of R840 billion from PIC

SA Inc. OPTIONS

3. Investment For Growth Accord (Prescribed Assets)

- R9 trillion industry assets (R6 trillion excluding Collective Investment Schemes).
- Investment for Growth Accord or Prescribed Assets
- 10% of industry assets towards developmental investments
- Must not be used to finance Eskom and SAA debt
  - Cannot finance past investments (that do not create a single job)
  - Can finance primary (as opposed to secondary) investments that create jobs - eg Eskom IPP projects

PROPOSED COVID-19 STIMULUS PACKAGE

	Stabilisation (12 - 18 months) (R billion)	Recovery (3 years) (R billion)
PIC (Debt write-off)	700	
PIC Cash	150	
Foreign Exchange Reserves	500	
Investment Accord [1]	150	350
SARB and PIC bond purchases		
SARB Developmental windows Recapitalise DFIs Monetary Finance		
TOTAL	**R 800 billion** **(before starting to print money)**	

1. **Investment for Growth accord with institutional investors (Prescribed Assets or S28**)

STIMULUS COMPONENTS

Dignity Floor below which no South African will fall

- ❑ BIG at Upper Poverty Line (R1227) will cost R500 billion
  - ✓ Must look at net cost after taking into account benefits of higher growth and tax revenues
  - ✓ Can implement taxes on wealth, property, carbon emissions, financial transactions
- ❑ Repurpose UIF to adopt German Kurzarbeit model
- ❑ Must implement NHI. Will cost R300 billion a year to reach two-thirds of per capita private sector expenditure
- ❑ Free Education (basic and tertiary) 300 000 teachers almost double the classrooms
- ❑ Green New Deal for South Africa to drive infrastructure spend and industrialisaton