

# Ramaphosa is missing an economic policy. What needs to be in it

By [Mark Swilling](#)

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As the entrails of the era under South Africa's former president Jacob Zuma continue to be [exposed](#) each day before a [commission](#) set up to investigate corruption, so the country witnesses the consolidation of the political project spearheaded by the new head of state Cyril Ramaphosa.



South Africa needs a new economic policy that envisages an overhaul of the power utility Eskom, which can't keep the lights on. EPA/Nic Bothma

But a key piece of the puzzle is missing: Ramaphosa's government doesn't have an economic policy. All that's been forthcoming is a [stimulus package](#), plus two summits – one on [jobs](#), the other on [investment](#). Do these add up to an economic policy?

The answer is no. Here's why.

I agree with South African economist Duma Gqubule [that the stimulus package](#) is a mix of short-term stimulus measures and longer-term structural transformation measures, without doing justice to either. The short-term measures don't include the usual elements of a stimulus package such as lower interest rates and increased spending. And the longer-term structural transformation measures, such as the infrastructure investment programme, is nothing new.

More importantly, the longer-term vision ignores the changing nature of the global economy. This is being transformed by three factors: new information and communication technologies, the renewable energy revolution and the recomposition of work as old jobs fall away and new ones created.

South Africa urgently needs a coherent economic policy that takes account of these realities. This can't be driven by an industrialisation strategy that relies on 20th Century capital intensive sectors like mining, chemicals, pharmaceuticals and the military. Many are in decline. Take coal mining: mines are being closed as countries switch to renewable energy which is now cheaper than fossil fuels in nearly 100 countries, including in South Africa. [Investment in renewables in 2017](#) was R280 billion, twice what was invested in fossil fuels and nuclear combined in that year.

And the new policy mustn't be written only by economists, as in the past. Economists [need to work with South Africa's scientists](#).

South Africa has dug itself into a deep hole. Ramaphosa's efforts to root out corruption are a good – but not sufficient – first step to getting the economy onto a sound footing.

## The history

The recent [resignation](#) of Home Affairs Minister Malusi Gigaba from government should not be underestimated. It was on his watch, as head of several ministries, that the influential [Gupta family](#), which sits at the centre of the country's [web of corruption](#), secured a free hand to "capture" key state owned enterprises. He, together with other ministers, agreed to participate in a political project that resulted in a silent coup that effectively marginalised and hollowed out the African National Congress (ANC). The goal was to capture and [repurpose state institutions](#).

Gigaba represents a generation that has done okay under the ANC since 1994, but want to do a whole lot better by grabbing their share of key sectors. They gambled on the alliance with the Zuma-Gupta network. And burnt their fingers.

Zuma was elected president of the ANC at its [Polokwane conference in 2007](#) on the back of a wave of discontent. Black business was no longer willing to hang onto the coattails of white business; trade unions were fed up with limited state intervention; the ANC was unhappy with the centralisation of power in the presidency; and provincial leaders felt snubbed.

After some years of dithering, what became known from 2014 onwards as "[radical economic transformation](#)" was in fact a strategy to [build a black industrial class](#) by using the procurement spend of around R200 billion by the country's state owned enterprises.

In theory, not a bad strategy. After all, this is a way of using state resources to build real assets owned by black people. As [recent research](#) showed, 90% of all assets are owned by 10% of the population, most of whom are white.

To operationalise the strategy speedily it was necessary to circumvent the legal framework. For that, brokers who were prepared to take the risks were needed. And so, enter the Guptas. A host of politicians were drawn into the web as well as South African and global businesses, including [KPMG](#), [McKinsey](#), [SAP](#), [T-Systems](#) and [Bain](#).

## Chicken and egg: investment and growth

During the recent investment summit Ramaphosa grandly announced that the "[investment strike](#)" was over.

But many economists, such as Professor Adrian Saville, [argue](#) that investment never drives growth. Instead, investment follows growth.

In theory, heavy state investment in infrastructure (as promised in the stimulus package) is a good thing. But what matters is the type of infrastructure and how private investment is crowded in, without flipping into privatisation (which has its own

set of challenges). For example, the [massive investment](#) in renewable energy (over R200 billion) since 2011 would not have happened if the state did not reduce risk by providing guarantees for the loans.

Given South Africa's vast array of state owned enterprises, which includes the power utility Eskom as well as the national airline SAA, it's obvious the country needs an economic policy that prioritises their investments. Yes, most need to be cleaned up and refinanced. But that is not enough. Radical thinking needs to be applied to entities such as Eskom, which has requested a [R100 billion bailout](#).

It's role could be redesigned entirely. But a plan for a complete overhaul would be best served by merging the country's best economic and scientific thinking. Together, they could generate an economic policy that puts energy at the centre. In line with global trends, this would need to be renewable energy because [it creates more jobs](#), is distributed across small towns rather than concentrated in a few industrial nodes, and can drive a new job-creating industrialisation strategy.

In short, South Africa needs a policy that drives growth and positions South Africa for the 21st Century. For such a policy to work the country will need an effective and capable state. And the great divide between science and economics must be bridged.

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