

## OPINION



### **The three ways out (III) – Politicsweb 27 May 2020**

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The third and final article in RW Johnson's series on the coming showdown

In the previous articles (see [part 1](#) and [part 2](#)) I have tried to lay out the three policy alternatives looming before South Africa: a dramatic embarkation on a programme of structural reforms and huge budget cuts carried out by the government without any IMF involvement; a similar programme but with IMF involvement; or resort to the uncertain waters of Modern Monetary Theory in which we would attempt to tackle our debt mountain purely with the printing press.

A first point is that all these alternatives are alarming to greater or lesser degree and it is therefore much easier to say what one is against than what one is for. As we have seen, the SACP/Cosatu have already emphatically rejected any alternative involving the IMF, making their stand on the need to defend national sovereignty.

I have given considerable space to their case since the SACP normally sets the agenda for the ANC. Already we have seen President Ramaphosa nervously defending the immediate use of IMF money for the Covid-19 emergency by pointing out that no conditionalities are involved and that national sovereignty has not been compromised. That is, the President has already been forced into a corner in which he seems to be accepting the SACP's assumptions.

In fact, we have already seen President Ramaphosa make all manner of promises which he has no hope of keeping (the creation of new jobs, the preservation of SAA, NHI, a sovereign wealth fund etc). In general, he seems unable to see very far down the road and is rather easily stampeded into taking decisions which later seem unwise.

He also lays enormous stress on social compacting, whereas the one thing that is certain about the approaching showdown is that no one will be able to marshal a broad national consensus behind any particular option. In the absence of that what will be needed is for someone to take the lead and push through one of the three options in the face of considerable resistance. This sort of leadership seems to be something for which Ramaphosa is particularly ill-suited.

The ANC's instincts will be to follow the SACP's arguments and clearly the Zuma-Magashule faction is already committed to that but the broad mass of ANC MPs and followers are less certain to do so if the President and at least some of the government take a different direction. In that case MPs will be swayed by whoever seems to have the greater powers of patronage and ANC voters in general will prefer whichever option they feel is most likely to create more jobs.

As yet it is not clear which option the SACP and Cosatu will favour. However, while they have put national sovereignty up front as their key issue, they have also attacked “neo-liberal austeritisation” (sic) which suggests that they would also rule out a purely domestic programme of structural reform. In which case they would appear by default to be likely to end up supporting MMT. And, of course we know that Ace Magashule already does.

This will, however, give Ramaphosa and the rest of the ANC pause for thought. Magashule is not popular and the Zuma faction's support has already shrunk. The sight of Zuma in court

with fewer and fewer supporters willing to take his side will not be good for the “radical economic transformation” lobby.

Moreover, it seems certain that the EFF will support the Zuma-Magashule line. All of which may make Ramaphosa hesitate long and hard about accepting a MMT outcome, particularly since both Mboweni and the Reserve Bank will be flatly against it.

If Ramaphosa looks at the other two options it might seem an argument in favour of a purely domestic programme of structural reform that it doesn't involve the IMF. That is, after all, exactly what Mbeki opted for with GEAR. But GEAR also illustrates exactly the weaknesses of such a path. The logic of the GEAR reforms was to move in a more market-friendly direction – and initially GEAR was supposed to include privatizations. But Mbeki quailed at taking a public lead in that direction and instead tried to dress GEAR up in a lot of neo-Marxist verbiage – and at the same time he was forced to back-pedal so that the privatizations vanished off the table.

So the lesson of GEAR is that a purely domestic programme of structural reform is likely to get blurred and watered down – and yet it will be just as bitterly unpopular with the Left as the IMF option.

As yet business has given no indication of its views, but it seems certain that it will oppose MMT as a solution. The dreadful example of Zimbabwe is ever-present, particularly since many businesses have or had branches in Zimbabwe and have seen only too clearly the ravages inflicted by a worthless currency and the huge extra opportunities for corruption it opens up for the political elite. In addition, MMT would require the abolition of the independence of the Reserve Bank and the business community is well aware that only that independence protected the Bank from becoming a victim of state capture. Even without imagining another Zuma regime the vista of the Reserve Bank being subject to the whims of ANC politicians is scary enough,

Beyond that there is a general distrust of the ANC's interface with the world of banking. The fact that the Land Bank has twice gone bankrupt, the saga of African Bank and the dreadful example of VBS all cloud the picture. In any case, if the Reserve Bank is made to print hundreds of billions of extra Rands to suit the needs of the ANC government, where will that stop? Will there not be a temptation to print money for other purposes as well, including corrupt purposes? Under ANC rule almost no large sum of capital in government hands has been safe from looting of some kind, but once the Reserve Bank is able to print extra money at will that would constitute the greatest prize of all and would surely attract looters like wasps to jam. The fact that under the weight of hyperinflation almost all of Zimbabwe's banks and many of its other companies have gone bust suggests only too well how damaging such a regime can be for business.

In short, one may be sure that the business community will oppose MMT just as fiercely as the SACP and Cosatu will oppose an IMF bail-out. But while both sides may be very certain of what they don't want, that still leaves the question of which option is to be positively preferred. At which point one has to point out that the option of a domestically driven programme of structural reforms makes little sense. If the IMF option allows one to borrow money at only half the cost of what would apply under a domestic programme, it seems absurd to make a fetish of the temporary loss of national sovereignty. The cost in human terms would simply be far too high – to afford those higher interest rates on the debt one would have to make far deeper cuts in every other kind of spending. Moreover, an IMF programme would probably attract extra private investment as well.

Politically the price of a programme of structural reform will be high whichever option is chosen. The SACP, Cosatu, the EFF and the Zuma-Magashule faction would be equally likely to oppose a second version of GEAR as an IMF bail-out. Submitting to IMF conditionalities enables the Left to campaign on a national sovereignty ticket but the even

deeper cuts necessitated by a domestic programme of structural reform would probably give even more ammunition to the Left. The real problem is that whichever option is chosen there is simply no way that Ramaphosa will be able to build a consensus behind it: in effect there will be a split within the ANC alliance whichever path is chosen.

Given what we know about Ramaphosa's hesitancy and weakness as a leader it is quite possible that he will try not to choose and that he will waste a great deal of time and further dissipate his authority by looking for impossible compromises. Moreover, his behaviour to date suggests that he has only a weak grasp of the economic situation that he faces: his minimum wage legislation, his promise of no redundancies in the public sector and his repeated insistence on NHI were all deeply unwise and he will doubtless have to eat his words before long. All of which makes it extremely difficult to forecast what he will do. However, the crisis will not wait. Once Mboweni brings in his emergency budget on June 24 one will get an initial impression of the mountain to be climbed and that picture will get steadily filled out over the next year. Once it becomes clear that the debt is climbing towards 90%-100% of GDP the ratings agencies will downgrade South Africa deeper into junk, the Rand will collapse and the economy will start emitting distress signals of every kind. Ramaphosa will be forced to choose a positive option whether he likes it or not.

As yet none of the major political parties have taken up position on these questions. No doubt the SACP and Cosatu will attempt to railroad the ANC into taking a position before the options are entirely clear. Ramaphosa would be wise to avoid that if possible. The DA, the FF+ and Solidarity will need to reach an agreed position: in the first instance they should at least agree to avoid MMT.

If Ramaphosa ends up asking for an IMF bail-out one may be sure that the SACP, Cosatu, the EFF and part of the ANC will attack him for betraying national sovereignty – a great deal of African nationalist energy can be concentrated on that theme. In which case it would be essential for the DA, FF+ and Solidarity to support Ramaphosa. Indeed, the logic of the crisis will be for a reformulation of the party system with the Left going into opposition and the Ramaphosa loyalist fraction of the ANC allying with the DA, FF+ and Solidarity in order to force through a programme of structural reform.

Such a reformulation of the party system should probably be based on a move to direct presidential election. It was clear even at the 2019 election that popular opinion was moving in favour of such a system. Ramaphosa could almost certainly win such a contest against all comers but if the ANC were split then he would need the support of the DA to guarantee an overall majority. Thus, just as in France or the USA, the presidential coalition would become the basis of the new party system.

That would have a certain logic but it is unlikely that this would happen unless the various components of the new presidential majority work consciously and deliberately for it. And it is expecting too much for history to find such a neat solution. For Ramaphosa to work towards such an outcome would mean that he has, at an early stage, to give up any hope of ANC unity. That is asking a good deal – at the moment he preaches ANC unity on every possible occasion and no ANC leader would look forward to going down in history as the man who split the ANC.

In addition, it would mean that Ramaphosa would need to stand firm against the SACP, Cosatu and others who helped elect him. We have seen no hint that Ramaphosa has the nerve or determination to do that or even the clarity of vision so that he knows exactly where he's leading.

And that is the problem. If Ramaphosa and the ANC sit in the middle insisting that they must remain united and simply parrot their usual ideological slogans, no real progress can be achieved in any direction. It must be remembered that the ANC is not an economically literate party and that very few of its MPs or ministers have any grasp of the economic

situation or of what constitutes a realistic response to it. Ramaphosa's euphoric suggestion that we are now about to build a whole new and rather better economy just because he'd like to suggests that he too is a long way from understanding the fix that he and we are in. This situation, taken together with Ramaphosa's leadership deficiencies means that we may need to go through not just one crisis but a series of crises. The ANC has blundered through nine years of Zuma with the situation getting steadily worse and Ramaphosa has blundered through half a presidential term being regularly "shocked" by each new bit of reality that he encounters. In a rational world the ANC would have pulled itself together long ago and Ramaphosa would have embarked on his presidency with a clear view of the situation he faced and a clear plan to deal with it. But none of that is the case.

So it would be sensible to assume that the ANC will blunder on while blundering space remains and that when Ramaphosa finds he is in a debt trap that he will be "shocked" by it. We have seen that whether the government ends up opting for an IMF bail-out or whether it opts for an even more draconian domestic programme of structural reform there will be a high political price to pay, probably including a split in the ANC Alliance. But it is by no means certain that that would see the SACP and Cosatu openly breaking with the ANC. The fact is that the Alliance gives them a degree of influence and patronage which they could not gain in any other way. So while the SACP and Cosatu hated GEAR they did not split away from the Alliance as a result. In 1996 they opted to remain within the Alliance, resentfully criticising GEAR but supporting the ANC in the 1999 election. By thus bidding their time they were able to preserve their share of patronage and influence and then to take the opportunity when it arose to side with Zuma and overthrow Mbeki in 2007.

So whether the SACP and Cosatu would split away from the Alliance over the issue of structural reform (whether domestically or internationally inspired) would depend on whether they felt they could win the struggle for control of the ANC.

In the end they were able to win just such a struggle against Mbeki by lining up with Jacob Zuma. But if they find themselves opposing a Ramaphosa government bent on structural reform they may not find a figurehead to rally behind who has any of Zuma's popularity or ethnic appeal. So, while they might prefer to overthrow Ramaphosa and have done with structural reform, they might find they lacked the votes for that in which case they might stay on as unhappy and carping members of the Alliance, just as they did in 1996-2007.

Ironically, it would suit the DA, FF+ and Solidarity better if the Left *does* find the votes with which to overthrow Ramaphosa. Partly this is because if the SACP and Cosatu remain within the Alliance any form of coalition between the DA and the Ramaphosa loyalist fraction of the ANC becomes impossible. And, of course, the Opposition forces would have maximum leverage if Ramaphosa depended on them for his majority.

If, however, the SACP and Cosatu remain within the Alliance but have to watch structural reforms forced through they would be severely weakened. The liberalization of the labour laws, the privatization of the SOEs and the cut-back in the numbers and pay of the public service would cause a grave shrinkage in Cosatu's membership and influence – and the SACP depends on Cosatu.

Moreover, South Africa would thereby make a sharp turn in a more market-driven direction. It would be clear that the NDR had been abandoned for good and that there could be no more talk of South Africa moving towards a socialist future. The political defeat of the Left would be patent.

It is worth pointing out that in other parts of Africa radical nationalist parties often had de facto alliances with the trade unions during the struggle against colonial rule. Almost invariably this led to sharp showdowns after a few years of independence in which the unions were defeated – this happened in 1961 in Ghana with the Sekondi-Takoradi strike and in Guinea, also in 1961, with the so-called "teachers' plot".

But South Africa is almost unique in having an influential Communist Party. The only other case in sub-Saharan Africa was Sudan where the SCP played a major role until 1971 when President Gaafar Nimeiry banned the party and executed many of its key leaders.

There are, then, many imponderables. But what has changed irrevocably is that our long slow slide into debt has been hugely accelerated. We also now know the alternative roads that lie ahead and their pros and cons.

What we can say with a fair degree of certainty is that a debt trap lies ahead, that there are only three ways out of it and that whichever path is chosen will determine all our futures.

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- George Orwell

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