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WEF GLOBAL RISKS REPORT 2022 SUGGESTS IT CANNOT BE BUSINESS AS USUAL
An urgent national economic compact is needed

The WEF recently released its Global Risks Report 2022; and for the South African economy it painted a gloomy picture. The prolonged economic stagnation, the employment and livelihood crisis, state collapse, the failure of public infrastructure and the proliferation of illicit economic activity, the report suggests, poses a real threat to the future continued well-being of South Africa. And the risks are real:

- Over the last decade GDP has failed to exceed 2% year-on-year growth, and, due to the pandemic, registered a nearly 7% contraction in 2021. Current forecasts suggest that the South African GDP will only recover to pre-pandemic conditions sometime in 2023. To effectively start chipping away at unemployment and social backlogs, sustained growth exceeding 4% per annum is needed.
- Unemployment, at 46,6% (expanded definition), is now at an all-time high. Youth unemployment stands at a staggering 66,5%.
- The Zondo Commission has highlighted the devastating effect of State Capture on the economy, and daily reports of failing rail networks, crumbling roads, electricity and water supply interruptions, etcetera, confirm the WEF's assertion of failing public infrastructure. Around 130 municipalities are in the danger zone of collapse.
- Illicit trade continues to expand. In 2021, SARS Customs more than doubled the value of seizures compared to the previous year, from R1.5-b to R3.5-b, including narcotics, clothing and textiles.

This against the backdrop of a weak fiscus.

The tax base is shrinking. A mere 5.8% of the population is now paying about 92% of all personal tax, and they are also paying about 85% of all VAT. This is not only threatening the sustainability of government's social spending programmes, but also highlights the structural high inequality in the country. South Africa has the highest inequality in the world.

As of September 2021, gross debt increased by 12% year-on-year and now stands at 72,34% of GDP, and is projected to rise to 82,99% by 2026. Thus, there is little fiscal space for desperately needed economic infrastructure development and the improvement of social conditions. More than a third of government spending is on the salaries of civil servants. And R1 out of every R5 (that is 20%) in taxes collected goes towards the servicing of debt. Stated otherwise, around 60% of the budget is spent on these two items alone.

The WEF's Global Risks Report 2022 also highlights social cohesion erosion a top short-term threat in 31 countries—one of which is South Africa. The Inclusive Society Institute (ISI) argues that, given the severe economic constraints and social backlogs in the country that social cohesion needs urgent attention lest it is to become a longer-term risk for the country.

The ISI's own research reveals that social cohesion in South Africa is perilous. Only 15% of South Africans believe that the country is moving in the right direction, some 12% of skilled and high-income earners are considering emigration and nearly two-thirds distrust immigrants. A third of all South

Africans believe that personal security is declining. And there is a worrying level of inter-racial distrust and political intolerance. All of which, if not urgently and systematically addressed, pose risks to social stability and order.

More can be said, but it is clear that the picture that emerges is one of despondency. But then again, the institute's research also points to some hope. It is not convinced that it is game-over for South Africa. There is a sufficient level of resilience and goodwill available that can be tapped into to turn the countries fortunes around. This will however require a concerted and sustained effort with real commitment by all stakeholders.

Increased vaccination rates have, for example, helped weather the omicron variant wave, which has inspired hope for the relaxation of remaining lockdown restrictions as South Africans learn to co-exist with the virus. This will give impetus to economy. So too, current commodity prices are buoyant, and drought conditions have receded, leading to the mining and agricultural sector performance exceeding expectations. And wider spread global recovery augurs well for the country to continue to benefit from improved global terms of trade. As a result, tax revenues have exceeded initial projections, which has contributed to reducing liquidity challenges in the short term, although it remains a longer-term constraint.

The findings of the Zondo Commission have highlighted the vulnerabilities in South Africa's institutional framework, and some of these are starting to be addressed, e.g., the changes in the appointment process of the SARS Commissioner. This will certainly help reverse the downward spiral brought about by state capture.

To this end the ISI is calling for a national economic compact, in a sense a national commitment, aimed at bringing about conditions conducive for growth. A compact entered into between business, labour, government and civil society, where the rules of the game for the foreseeable future are agreed and committed to. This will certainly demand compromise by all, but, if honoured, turnaround will be assured.

This may, in the national interest, require a temporary stepping back from existing rights and demands, such as labour's insistence on above-inflation salary increases, a temporary solidarity tax despite businesses' aversion to higher taxation (conditioned on it being ringfenced for economic infrastructure development), a breather on the introduction of further complex government interventions that diminishes the ease of doing business, a commitment to short-medium term policy certainty, capable of pacifying potential investors around the security of their investments, and the on-boarding of civil society to support and endorse the compact.

The Institute is of the opinion that this concerted action is required to coordinate the interests of different economic policy actors in order to achieve a better overall result in the medium to longer term, which may well require some actors to pause short-term or subordinate objectives for the greater good of the country. Post WW2 and after re-unification, this approach was followed in Germany with great success.

What is clear is that the South African economy is in crisis. It cannot be business as usual. Such an approach, the Institute cautions, will inevitably realise the risks identified in the WEF report. The need to get direction has never been more urgent.

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