

## No growth and no-go leaders

12 June 2017

The political-economic scene is dominated by poor growth numbers; the Zille and Zuma conflict in the DA and ANC respectively; two reports on state capture, one by the churches and one by academics; and the water torture of dripping emails from the Guptas.

## Watch that current account balance

Last month we ill-treated readers to an analysis of the current account balance, concluding from the data that the economy is in very poor shape. What looks like good news (a smaller current account deficit and thus less reliance on foreign capital) is actually bad news (consumption and investment are struggling).

That conclusion has been confirmed by the very bad growth numbers for the first quarter of 2017 – the economy contracted by 0.7%. This was much worse than economists expected and generally came as a shock. It is also the second quarter of contraction which means SA is now in a recession.

The poor growth, amongst other reasons, was quoted by Moody's in justifying their decision to downgrade SA one notch – they had SA two notches above junk, so it is still investment grade with Moody's. Fitch rates SA as junk; S&P rates our foreign debt as junk, but domestic debt still as investment grade. So the score is 3 junk and 3 investment grade – marginal stuff.

Before the cabinet reshuffle the growth expectations for 2017 were between 1% and 1.4%; now it is around 0.7%. The difference may seem small, but it decisively tips economic growth below population growth. Ditto for 2018. Growth was expected to recover to about 2% in 2018, but now economists' forecasts are hovering around 1%. The second Zuma term will be five years of declining per capita incomes – the longest period of decline since democracy.

Only substantial political change can turn this sad state of affairs around. So let's turn to political developments.

## Dangerous moment for the DA

Mediation efforts between Helen Zille and the DA failed and matters are coming to a confrontational head. She was suspended from DA activities (but not from her premiership in the Western Cape) and her disciplinary enquiry commenced on 9 June. The enquiry is now dealing with some procedural matters and the actual hearing will continue on 30 June.

It is a dangerous moment for the DA. Zille has considerable support in the party, particularly in her base in the Western Cape, and getting rid of her will cost the party support. On the other hand the DA cannot be a serious contender in the 2019 elections with colonialism tweets hanging over it. Damned if you do, damned if you don't.

Julius Malema has piled on the pressure by threatening to withdraw from DA coalitions in several metros – and that in the same month that coalition budgets were approved in Johannesburg, Tshwane and Nelson Mandela Bay, confirming that the DA-led and EFF-supported coalitions can actually take critical decisions. Passing a budget is probably one of the most important decisions any government can take. There is a lot at stake around the Zille tweets. However, she has chosen to make a stand and the consequences must now play out. (Is it mere co-incidence that the title of her autobiography is *"Not without a fight" ....?!!*)

## Ditto the ANC

A similar obstinate stand has been taken by Jacob Zuma who steadfastly refused to step down and survived another motion of no confidence at a NEC meeting of the ANC. It is a dangerous time for that party too.

The NEC consists of 107 members, let's assume all attended the meeting. Reputedly 71 people spoke; 18 for the

motion (thus against Zuma); 29 more spoke but did not take sides; and enough supported him that the motion could be thwarted. The NEC does not vote on matters, it only takes decision by consensus – effectively that gives one side in a dispute a veto right. In this case it benefited Zuma.

### That base....

We thus have two political parties with leaders who are no longer an asset to their respective parties but who enjoy sufficient support to hang on. I was mulling over this phenomenon when some numbers from the US caught my attention.

On the day that Donald Trump was inaugurated, 20 January, he enjoyed an approval rating amongst the Republican base of 79%. One hundred or so chaotic days later it stood at 83%; and after he had fired FBI director Comey, he was still enjoying 75% approval. In US society at large, his approval ratings are of course much, much lower. But the base approves of Trump, never mind news flow, negative impact on the party and so on. It is the base that matters .... be it Trump in the US, Zille in the Western Cape, Zuma in the ANC.

If the base stays loyal irrespective, it is up to the electorate at large. And where do they stand?

### Electorate at large

In the 2014 national elections the ANC garnered 62% of the vote, in the local government elections 2016 less than 55%. By-elections since 2016 suggest a further erosion of ANC support. Local government elections are not the same as national elections and one cannot extrapolate from by-election results to national patterns. But one can equally not ignore the consistent decline.

Jacob Zuma in particular is not riding high in the polls. The only political leader scoring lower than he does is Julius Malema. Even that may very well have changed with the two state capture reports (one by the SA Council of Churches and one by a group of academics) and the Gupta-emails that are being released so relentlessly. Either the ANC frees itself from the kleptocratic vice-grip in which it is caught, or it will pay a price in the 2019 elections. Up till now it was a case of “he who controls the branches of the ANC controls the country”, but this may very well no longer be true. He or she who wins the branches may very well lose the majority in the country. Even ANC Secretary General Gwede Mantashe admits that the Gupta-emails are hurting the party.

Against this background the ANC elective conference in December will be crucial for its 2019 election fortunes. If the party can cleanse itself, it may recover; if it cannot, it is unlikely to keep that 55% and may well dip below 50%. Then the country will be full scale into coalition politics.

### The Gupta emails

Millions of words have already been written on this and many more will still follow. I offer just three observations.

Firstly, the emails reveal industrial-scale corruption; confirming what journalists and loyal citizens have drawn attention to for some time now. Pressure for some form of clean-up action is building. It will have to be undertaken.

Secondly, the emails are galvanising a lot of resistance from civil society, who will play an increasingly active role in determining the clean-up. From churches to political parties to NGOs are involved. There is certainly no meek and mild acceptance of what has been going on.

Thirdly, the emails undermine the legitimacy of the current government and the ANC in general but one of the biggest losers is Finance minister Gigaba. Before the emails already, allegations were made about his relationships with the Guptas, none of which he has repudiated. The emails have outlined those links even more clearly.

### So What?

- Even if the country recovers from recession, growth is likely to be slower than population growth into 2019.
- It is indisputably in a low-growth vice-grip; it will require substantial political leadership to get it onto a moderate growth path.

- However, political leadership is weak and substantially compromised; both main parties are caught in internal tensions and would have to replace unappealing leaders. Where there should be action and new ideas, internal divisions are sucking up the energy.
- It is a tribute to open society dynamics in SA that the two state capture reports and the Gupta-emails appeared and that civil society is responding to it. The genie is unlikely to go back into the bottle.
- Ultimately the electorate will pronounce on the corruption revealed. The time frame for that is between 6 months (ANC Conference) and 2 years (next election). In the mean time we suffer economic stagnation and political hiatus.