From disaster capitalism to disaster socialism: Is the COVID-19 pandemic an opportunity for radical change or means to foster deeper inequalities?

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Abstract

"*This small opinion piece discusses the government's social policies in response to the COVID-19 pandemic. It analyses the COVID-19 pandemic through Noami Klein's concept of shock doctrine. It argues the that crisis can be seen as a critical juncture, and that the policy response will have far reaching consequences for the foreseeable future. Whether the world we wake up to in the aftermath of the crisis is socially progressive or fostering deeper inequalities will depend on the decisions our leaders take to lessen the socio-economic effects of the crisis. Now more than ever, we have a duty to keep our leaders in check.*"

Keywords

COVID-19, shock doctrine, inequality, governance

In the preface of his book *Capitalism and Freedom* (1982: ix), Milton Friedman argued that only a crisis can produce real change. According to Friedman (1982: ix), 'when that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable'.

Naomi Klein took the argument further in her book *The Shock Doctrine* (2007), arguing that the aftermath of a crisis is the best time to 'push through a policy tsunami' (Klein and Smith 2008: 582). According to Klein, the 'shock doctrine is the political strategy of using large-scale crises to push through policies that systematically deepen inequality, enrich elites, and undercut everyone else'. The shock doctrine was developed specifically to prevent progressive change from happening in times of crisis. For example, Klein (2007: 8) strongly argues that natural disasters and collective traumas have long been used to advance corporate goals and support economic reforms. According to Klein (2007: 5-7), crises offer exciting opportunities for privatization and the rapid transformation of the economy.

Klein refers to disaster capitalism to show how 'private industries spring up to directly profit from large-scale crises'. Disaster capitalism uses an entire population's state of collective shock to push for changes that society would otherwise fiercely oppose (Klein 2007: 17). These changes often come in the form of a corporatist agenda, pro-business regulations, tax cuts, and waves of privatisation. *The Shock Doctrine* was published a year before the 2008 financial crisis, and yet, its predictions could not have been more accurate. As McKee et al*.* (2012: 346) noted, the financial crisis was mostly due to an institutional failure. Yet the solution proposed by governments and international financial institutions was to bail out the banks with taxpayer money and to shrink the state as the European welfare system was deemed unaffordable (McKee et al*.* 2012: 347). Despite Milton Friedman's warning that 'The boom, not the slump, is the right time for austerity', the European Commission, European Central Bank and the IMF (the so-called Troika) imposed austerity as the only alternative to national bankruptcy.

Austerity is not a well-defined concept although there is some consistency to what the term entails. In general, it refers to quite severe cuts in public spending in order to close a government's deficit (Bramall et al*.* 2016: 120). Arguably, there could be two ways of balancing the books: spending cuts or tax rises (Bramall et al*.* 2016: 120-1). Yet in the face of a lockdown, cutting public spending is both irrational and socially irresponsible, particularly in the case of South Africa. Indeed, according to Stats SA, 40% of the population is living below the Lower Poverty Line, and the lockdown has further threatened the livelihood of many marginalized South Africans who now depend on social grants for their survival. The South African government therefore decided to increase its social spending to support the most vulnerable. As part of the economic relief package announced on the 21 April 2020, government would spend R50bn on measures to slow down the poverty crisis. While the gesture is laudable, it is possible that the government will be unable to backtrack this important measure, and that the most vulnerable will demand more, not less, support from government once the pandemic is over. What we are witnessing here is what historical institutionalists call a 'critical juncture'. Critical junctures are events in which major institutional changes are triggered by exogenous forces, giving rise to new institutional arrangements and new developmental pathways (Sorensen 2015: 30). The key point is that a crisis can result in a loss of legitimacy for existing institutions and allow political actors to push for new institutional arrangements (Ibid.). For Katznelson (2003), critical junctures are the moments of crisis when old policies no longer work, and institutional structures fail to provide solutions to pressing problems, effectively losing their legitimacy. A critical juncture can be seen as a crisis, but it can also be seen as an opportunity to develop new institutions. In other words, it is 'the opening of multiple possible futures, the determination of which will depend on the particular political dynamic and power relations when new institutions are established' (Sorensen 2015: 31).

According to former Treasury official and University of the Witwatersrand Professor, Michael Sachs, 'If our state is unable to construct a social compact that drives forward a path of fundamental economic transformation and new ideas about distribution, we will find ourselves in a period of debt distress. South Africa will find itself much more in a position of a developing country than in the middle-income countries in the global order of things'. Another important point to consider is the upcoming 2021 municipal elections. In addition to the public debate on economic transformation and land redistribution, it is clear that the ANC also has an imperative to foster a social compact that will both address the pandemic and reach out to the most disadvantaged communities. According to scenario planner and strategist Clem Sunter, this will happen in the context of a decline in tax receipts due to the bankruptcy of many companies. Similarly, many consumers may be unable to pay off credit debts without the wages they rely on. Altogether, a risk of default at the national level becomes highly probable.

There might still be a long road ahead before we start seeing the light at the end of the tunnel (see Box 1). According to Health Minister Zweli Mkhize, the lockdown managed to slow down the progression of the virus and push back the peak infection rate to September 2020. According to the government, South Africa's risk adjusted approach to the pandemic is likely to last 6 to 8 months. Tourism Minister Mmamoloko Kubayi-Ngubane further noted that the government will continue to support businesses during that period. Government support to companies will therefore become a new reality in the medium term. According to Chatterjee et al., the government's relief package should be funded through a progressive solidarity wealth tax. According to their study, such a progressive wealth tax could raise more than R143 billion, or 29% of the R500bn relief package. Chatterjee et al. further point out that the richest 10% own 99.8% of bonds and stock, and therefore might be the biggest beneficiaries of the government's economic relief package. Higher taxes could be a relatively fair trade-off. Yet critics of a wealth tax have long argued that it would be too complex to implement, and it would lead to massive capital flight and migration of the wealthy, effectively decreasing tax revenues. Moreover, the State Capture scandal has left many taxpayers with reservations regarding the integrity of government officials. If the government is to implement a progressive solidarity wealth tax, it will be required to simultaneously promote greater transparency of the management of public revenue. President Cyril Ramaphosa, therefore, announced that the government will 'keep a hawk's eye' on municipalities' spending to prevent any looting of the aid package. More recently, president Ramaphosa announced the signature of a proclamation authorising the Special Investigation Unit (SIU) to investigate every instance of alleged corruption relating to COVID-19 funds. Indeed, despite the urgent need to assure a transparent and fair distribution of scarce resources to the most vulnerable, the country has already witnessed the misallocation of food parcels and overpriced procurement of blankets. Restoring public trust will be vital to gather public support for the 2021 national elections.

Box 1: Stimulus package in number

The stimulus package introduced by the government amounts to almost 10% of the national GDP. There is no doubt that the package will accelerate the nation's rising debt-to-GDP ratio, which was set to reach over 70% of GDP by 2023. According to experts, the pandemic will lead to a debt-to-GDP ratio of 90% by 2025 – of the R500bn, R130bn will be reprioritised from the current budget, while R370bn will be borrowed. According to Africa Check, the gross fiscal revenue of the government for the 2020/21 financial year is expected to be around R1.121 trillion. Of this budget, R236.4 billion (21%) will be allocated to debt repayments while R576 billion (51.4%) will be spent on public servants salaries. Altogether, this leaves little space for social spending. Furthermore, the recent downgrading of South Africa's sovereign credit rating to sub-investment grade means that borrowing money will be increasingly expensive for the government. As noted by Dawie Roodt, the state will have to balance fiscal incomes and state spending in an environment of increasing needs.

President Ramaphosa reasserted that the social relief measures had the double objective of both supporting the most vulnerable citizens and narrowing the gulf of inequality. For Ramaphosa, the pandemic seems to be an opportunity to create a new society in which the provision of services to citizens is the government's highest priority. Yet, as noted by Ramaphosa this can only be done in a collaborative spirit between government, business, labour and civil society. And while the details of how this is to be achieved are still unclear, the necessity to deal with inequalities is now, more than ever, apparent. For example, Quentin du Plessis notes that the pandemic forces the government to ensure that all communities have access to clean water and that the homeless are sheltered. While these populations have been marginalised for years, the pandemic prompted the government to act swiftly to take measures that it should have taken long ago. As many will point out during the 2021 elections, the ANC government had the means to implement these measures, but probably lacked the will to do so. As mentioned above, crises are often used to impose unpopular policies such as privatizations and corporate tax cuts. But in a society as unequal as South Africa, can it work in reverse? Could we see a form of 'disaster socialism' arising from the urgent need to protect the most vulnerable?

Clearly, the pandemic will radically alter our societies. Whatever measures our governments decide to implement, they will have long-lasting consequences and transform the world we live in. And while President Ramaphosa's decisive policy steps have been greatly praised, they will be judged based on the effect they have on the most marginalised and vulnerable population. Ultimately, the pandemic is a shock that can and will be used to push far-reaching reforms. Whether the world we wake up to in the aftermath of the crisis is socially progressive or fostering deeper inequalities is up to us.

Now more than ever, we have a duty to keep our leaders in check.

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