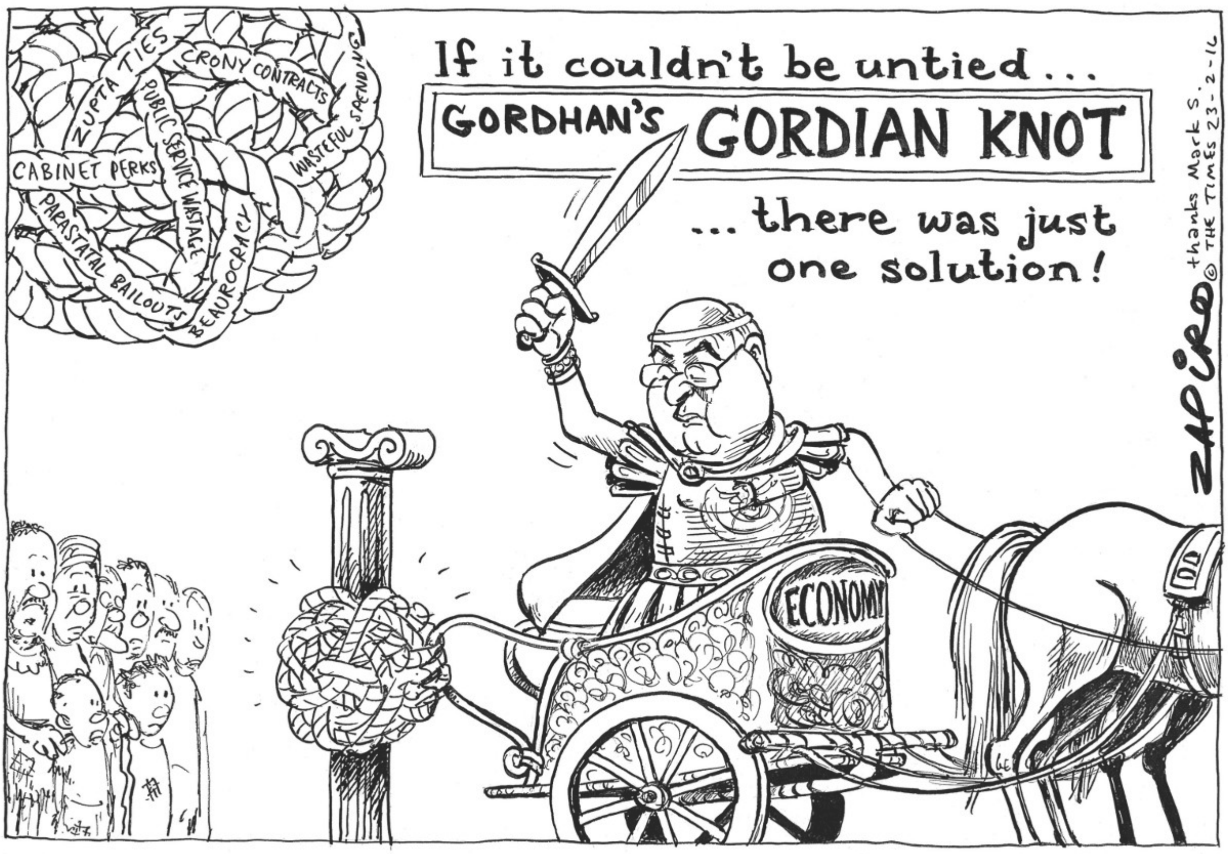
THE JOURNAL OF THE HELEN SUZMAN FOUNDATION ISSUE 78 • APRIL 2016

FOCUS



THE ECONOMY

SPICER | ABEDIAN | SIMKINS | NATTRASS | SEEKINGS | LEON | LUIZ | BARLOW

REVIEWS | CARDO | KRUGER

helen.suzman.foundation
promoting liberal constitutional democracy

Focus is published by The
Helen Suzman Foundation,
Postnet Suite 130
Private Bag X2600
Houghton, 2041
No 2 Sherborne Road
Parktown, 2193

Email: andrew@hsf.org.za
Website: www.hsf.org.za

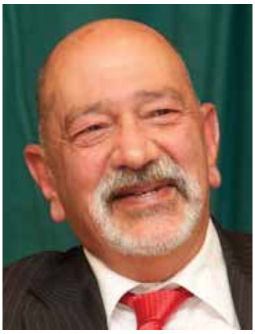
ISSN 1680-9822

Contributors
Iraj Abedian
Andrew Barlow
Michael Cardo (Review)
Matthew Kruger (Review)
Peter Leon
John Luiz
Nicoli Nattrass
Jeremy Seekings
Charles Simkins
Michael Spicer

CONTENTS

BOOK REVIEWS

The Economy



Francis Antonie is the Director of the Helen Suzman Foundation. He is a graduate of Wits, Leicester and Exeter Universities. He was awarded the Helen Suzman Chevening Fellowship by the UK foreign Office in 1994. From 1996 to 2006 he was senior economist at Standard Bank; thereafter he was director of the Graduate School of Public and Development Management at Wits University. He is the founding managing director of Strauss & Co.

*This edition of **Focus** deals with the Economy. We begin with Michael Spicer's broad sweep of the business government relationship during the apartheid era and, thereafter, post-apartheid. He chronicles the on-going deterioration in this relationship. He rightly points out that business is not a homogenous entity, but he also notes, especially during the Zuma years, how fractious, divided and unfocussed the state's developmental initiatives have been.*

Iraj Abedian reviews South Africa's sovereign credit rating. He points out that no amount of denialism, political spin doctoring or ideological posturing will avoid a deeper crises if South Africa is downgraded. Abedian's article is a very soboring one, and should be mandatory reading to all politicians.

Charles Simkins is concerned with fiscal policy and development. He draws attention to the precariousness of our fiscal situation, identifying both what needs to be done and how to do it. Simkins isolates five key questions relating to the sustainability of sound fiscal management. Again, our policymakers should take seriously his concerns.

Nicoli Nattrass and **Jeremy Seekings** consider both the policy implications and the realities of setting minimum wages in South Africa. They urge that there is no substitute for empirical investigations on a sector-by-sector basis. And they reject any ideologically based attempt to superimpose a top down approach on the problem.

Peter Leon reflects on the South African mining industry in a time of crisis. He recounts the abysmal state into which the industry has fallen – a lethal combination of a slumping demand coupled with a regulatory regime which, if one was cynical, might be described as deliberately setting pace to hinder the survival and growth of this industry. But he does point out there are also important opportunities for both the state and industry to pursue.

John Luiz considers South Africa's growth track, and attempts to elucidate why poor policy choices have exacerbate the already difficult situation in which South Africa finds itself. He brings into focus important political aspects to our current malaise, and cautions that unless there is a dramatic policy shift which recognises the causes of stagnation, we are unlikely to move beyond middle-income status any time soon. He concludes that tough choices need to be made to avoid the road to nowhere.

Andrew Barlow reflects on the failure of state owned enterprises, and considers whether their failure may lie in the ideological, psychological and behavioural assumptions underpinning the ANC's view of the economy. If the state, party and government are not regarded as separate entities, and if the use of cadre deployment is continued to mollify factions within the ruling alliance, he argues that state owned enterprise must inevitably fail.

We conclude with two reviews. The first is by **Michael Cardo**, of Milton Shain's book *A Perfect Storm: Antisemitism in South Africa*, 1930-1948. The second is by **Matthew Kruger**, of Eusebius McKaiser's book *Run Racist Run: Journeys into the Heart of Racism*.

Francis Antonie
Director of the Helen Suzman Foundation

The Business Government Relationship: What Has Gone Wrong?

A dysfunctional relationship between business and government – both very far from being unified entities with coherent world views and policies – is one of the reasons why South Africa's economy continues to perform sub-optimally. South Africa's history, most notably apartheid and race, have ensured that the kind of cultural homogeneity and shared world views and goals, which have underpinned other successful societies, have never characterised the government/business relationship in South Africa. Clearly relationships have ebbed and flowed over time for a variety of reasons and I propose to analyse and trace the relationship over the past 30 years and to highlight the themes still relevant today.

Michael Spicer has a long and distinguished career in both business and business organisations, including being the former CEO of Business Leadership South Africa. He holds an MA degree in History from Rhodes University. Before entering business, he was attached to the Royal Institute of International Affairs (Chatham House), and the South African Institute of International Relations (Jan Smuts House).

I have divided the analysis into five eras that correspond with major ebbs and flows in the relationship:

1 The apartheid era and specifically the late 1980s
2 The 1990 – 1994 transitional era
3 The first decade of democracy: the Mandela and first Mbeki presidency
4 The second Mbeki term, 2004 – 2009
5 The Zuma era
6 The commodities bust, declining growth and the 9/12 crisis

1 The apartheid era

For most of the apartheid era the National Party government was dominated by farmers, lawyers, doctors, teachers and dominees. Apartheid as an ideology – essentially feudal but with national socialist overtones – was suspicious of and hostile to business, particularly English speaking capital (Hoggenheimer, Britain and the Empire), but also including Afrikaans capital. National Party cabinets contained no business people until the 1980s and even then, they remained a tiny minority. Emblematic of the frigid relationship between business and government then, was the fact that the most powerful man in business in South Africa, Harry Oppenheimer, did not meet the prime ministers and state president of the country from 1955, when he left parliament, until 1981.

As apartheid became increasingly dysfunctional for a modernising and industrialising country, and sanctions and isolation increasingly cut off the South African economy from international trade, investment and financial flows, business criticism of National Party policies became stronger and more coherent.

Then, the structure of business facilitated coherence – the economy was dominated by a handful of conglomerates with clear leadership amongst both the English and Afrikaans community – Harry Oppenheimer and Anglo American, and Anton Rupert and Rembrandt, respectively.

The release of Nelson Mandela and the unbanning of the ANC ushered in a period of much closer interaction between the business community, the National Party government and the returning exile movements.

Nevertheless, beyond reformist moves such as the launching of the Urban Foundation, there were differences of approach which manifested in such cases as Gavin Relly's seminal visit to Lusaka in September 1985, the establishment of the tricameral parliament, the activities of the Consultative Business Movement (CBM) and the political changes required to reintegrate into the global economy. Most business people shared the National Party government's concerns about the ANC's ties with Moscow, Marxist ideology and commitment to violence, but the more conservative were unwilling to engage with the UDF and the ANC.

2 The Transition years

The release of Nelson Mandela and the unbanning of the ANC ushered in a period of much closer interaction between the business community, the National Party government and the returning exile movements. Just as the fall of the Berlin Wall and disintegration of the Soviet Union played a key role in the National Party leadership's preparedness to change, so too did those developments help grow the confidence of the business community that any new government in South Africa would be less likely to pursue policies that had been so comprehensively discredited elsewhere. The prospect of releasing business from the constraining manacles of sanctions and an isolated hothouse economy was also a strong galvanising factor for business proactivity.

Consider the case of the ANC's commitment to the policy of nationalisation. The Freedom Charter of 1955, a document capable of wide interpretation, formally committed the party to nationalising the 'commanding heights' including centrally the mines. This was the posture defended by Mandela when he addressed the first joint ANC/business conference on economic policy convened by the CBM in May 1990. Yet following numerous discussions culminating in meetings he had with Chinese and Vietnamese political leaders and leading international businessmen at the World Economic Forum in Davos in 1992, Mandela persuaded the ANC to drop the policy of nationalisation. However, a significant part of the Tripartite Alliance remained committed to a fundamentalist adherence to the Freedom Charter position on nationalisation, and the issue returned at various points over the next 20-odd years.

In any event, the leadership of the small major conglomerates had concluded that a proactive role for business was required to ensure that the transition produced a stable democracy that enabled the pursuit of long-term investment and growth.

The currency of trust gained in the late 1980s via the CBM led to it being appointed as the secretariat of the constitutional negotiating forum CODESA. Business's role was even broader, for example, leading together with civil society the rescue process of the National Peace Accord when the constitutional talks got into serious difficulty. This was followed by business facilitation of Inkatha's late, but critical, re-entry into the election process. Business was also heavily involved in creating and supporting institutions to support voter education and the actual conduct of the 1994 election itself.

Business too engaged intensively with all the parties in a myriad of consultations, conferences and seminars on prospective economic policy and, indeed, a wide range of other policy matters. A number of scenario planning exercises were carried out building on the Anglo American scenarios of the mid/late 1980s which had helped shape thinking of some elites (including senior National Party leaders) about the need for a negotiated future and an economy that was geared to the changing world environment.

The major point to make about this transitional period was that leading businesses invested heavily in influencing the transition because they believed it was necessary for their short, medium and long term interests. Organised business was populated by senior representatives of the leading companies who employed a significant range of specialists in the fields of public affairs, labour relations, economics and social investment. The relative coherence of corporate South Africa was therefore mirrored in organised business institutions.

The political imperative to create opportunities for black South Africans to enter the economic mainstream underscored these pressures, and a process of unbundling of non-core assets of the main groups and a more general restructuring began.

3 The first decade of democracy

Any honeymoon in relationships between business and the new ANC government was relatively short-lived. Though President Mandela regularly convened the so-called Brenthurst Group of the dozen or so most senior business people and this kept the lines open with senior business leaders, economic policy within the Tripartite Alliance remained heavily contested and unclear. The Reconstruction and Development Programme (RDP), launched soon after the 1994 election, was perceived by business as an idealistic and impractical approach to development when the economy was weak and suffering significant post-apartheid fiscal and structural headaches. Also Deputy President Mbeki, who was delegated the practical running of the economy by Mandela, quickly distanced himself from the existing, relatively close, relationship with business.

At the same time, the focus of leading businesses on societal issues changed as the country reintegrated into the global economy. Firstly, this reintegration immediately put pressure on the corporate sector to restructure away from a conglomerate approach, which had been functional during apartheid isolation, into a more focused structure that would be competitive in global markets and attractive to global investment. The political imperative to create opportunities for black South Africans to enter the economic mainstream underscored these pressures, and a process of unbundling of non-core assets of the main groups and a more general restructuring began. As companies streamlined and pursued the pent-up demand of several decades to trade and invest internationally, their focus on the intensive involvement in broad South African society began to diminish. Indeed, many took the attitude that South African had a legitimate government and, even if they did not like many of its policies, it was no longer desirable, appropriate or convenient with so much going on elsewhere for them to intervene in the same way as in the 1980s and early 1990s.

The shift was gradual but by no means slowed down by the constant rebuffs by government of initiatives that the business community did take. Concerned by the vacuum of economic policy in 1995 and 1996 and a debilitated economy and weakening currency, the South African Foundation produced a document entitled 'Growth for All' that advocated market friendly but inclusive policies. The document elicited a furious response from many in government, partly because it was perceived as untransformed business lecturing a legitimate democratic government, but partly also because it underscored the tensions and differences within the Tripartite Alliance.

The concept of the BT in brief was to recognise that the implementation of GEAR would temporarily delay the addressing of many of society's developmental needs and postpone pent-up expectations while the economy was stabilised.

A core of officials under President Mbeki had already concluded that much of the thrust of Growth For All was required to stabilise and restructure the economy if an IMF/World Bank restructuring intervention was to be avoided. The Growth, Employment and Redistribution policy (GEAR) unveiled a couple of months later was essentially a self-imposed restructural programme. The plan was imposed over strong resistance from the Tripartite Alliance partners and no doubt its similarity to Growth for All did not make things easier for the Mbeki administration.

Though Deputy President Mbeki and his close ANC supporters had adopted a market friendly approach and believed that globalisation was a reality that required engagement rather than rejection, they still strongly distrusted the overwhelmingly white business community. This was reflected, inter alia, in Mbeki for several years resisting pressure from business to create his own version of the now moribund Brenthurst Group in order to carry forward a structured dialogue with business.

Frustrated by what they perceived a growing gulf between business and government, a number of business leaders, harking back to the days of the intensive discussions of the CBM with politicians and civil society in the late 1980s and early 1990s, began a consultative process with the office of Deputy President Mbeki and others. This was to result in 1998/9 in the establishment of the Business Trust (BT). The concept of the BT in brief was to recognise that the implementation of GEAR would temporarily delay the addressing of many of society's developmental needs and postpone pent-up expectations while the economy was stabilised. Business, therefore, had an interest in going well beyond existing CSI programmes to co-invest with government on a few selected issues, principally employment creation and education. It was the clear intention of the business architects of the Business Trust that the joint programme would build trust with the government and lead to a resumption of institutional dialogue.

Of course the BT also provided an alternative to proposals for reparations emanating from the Truth and Reconciliation Commission (TRC) which business disliked, not least because they would be interpreted as an admission of culpability for apartheid, a charge repeated by many critics within the Alliance and civil society.

The resumption of institutional dialogue did in fact materialise in 1999 with the establishment of the Big Business Working Group (BBWG) which broadened the base of the Brenthurst Group . However, quite quickly, the newly elected President Mbeki faced pressure from other interest groups and he decided to create a number of other Working Groups. Whilst this provided the requisite political cover, its elaborate nature and the time and resource demands imposed soon drove the direction of meetings to one of form over substance, a ritualised minuet where open and honest dialogue seldom took place.

Unpacking the unsatisfactory nature of the BBWG reveals a number of factors. Although some government ministers, particularly Finance Minister Trevor Manuel challenged business to be more honest and open, on the occasions when business essayed a more frank approach it was brutally rebuffed. President Mbeki's temperament and authoritarian style did not easily brook criticism and neither did many of his colleagues.

If there had been more cultural homogeneity and social capital between the interlocutors, the prickliness of politicians might have been alleviated though clearly an authoritarian style did not make for much listening. But a lack of these factors meant that both sides were predisposed to misunderstand each other. Given that meetings typically involved some 40 to 50 people (and well over 100 when all the Working Groups met jointly), government resorted to 'party postures' which did not allow easily for frank personal views. Some subjects such as HIV/Aids and Zimbabwe, notorious blind spots of President Mbeki, were simply off the agenda. Attempts to discuss them were not tolerated.

Business was extremely resistant to the idea of transferring or giving away assets and believed that BEE deals should be structured on essentially commercial terms, though inevitably there would need to be 'facilitation', a combinations of discounts, loans, vendor financing and other support mechanisms.

And from business's side, most white executives felt on the defensive as they were increasingly criticised and demonised by black counterparts in the Black Business Working Group for 'failing to transform', a perception often shared by government. (President Mbeki however used to complain in private that the Black Business Working Group was a one-note orchestra that was unwilling to move beyond its obsession with transformation to contribute to other pressing issues. Nevertheless, ever the politician, he found it convenient to play divide and rule.) Many established business leaders, and not only white ones, either resorted to saying not what they thought but what they thought their political interlocutors wanted to hear. Finally, captains of industry are notoriously egocentric, unwilling to accept a 'party whip' and were liable therefore to depart from a structured agenda to personal riffs on peripheral issues.

At the heart of the failure of the working group system to produce substantially better working relations was the fact that there were fundamental differences on key issues. Principle among these was the question of how the majority of the population was to be incorporated into the formal economy. Business had not been totally blind to the need to accelerate black involvement at all levels and from the very early 1990s a number of black economic empowerment (BEE) schemes had been established. The thinking amongst big business was that a rapidly growing economy should be the principle driver of broadening opportunities particularly combined with better education and skilling. But for political and symbolic as much as substantive reasons, black ownership and control of chunks of the economy would have to be accelerated through innovative mechanisms. Business was extremely resistant to the idea of transferring or giving away assets and believed that BEE deals should be structured on essentially commercial terms, though inevitably there would need to be 'facilitation', a combinations of discounts, loans, vendor financing and other support mechanisms.

The problem with such an approach – aside from being a disincentive to entrepreneurial activity – is that it relied on a continuingly rising market together with considerable management skill and experience to ensure that dividends could pay off the financing of BEE companies. Inevitably both conditions fell short and though some deals endured and a few even prospered, many did not. Increasingly an impatient emerging black business elite lobbied a receptive political elite for state intervention to compel business to do more and much faster. As an aside, it is remarkable how little attention education and skills, as a pre-eminent condition for sustainable black economic advancement, received from the political elite. Though some attention was given to broadening BEE schemes this seemed to translate into unwieldy coalitions of politically connected women, youth and veterans. From the business side, what is also striking is how little attention was paid to the empowerment of employees as the first point of departure, though there were a few rather isolated attempts at share ownership schemes.

Hence there was an incentive for South African mining companies, still leaders in the world, both to unbundle and restructure to focus on their core mining business, and then to merge with and acquire others internationally as a way of surviving. This was not possible from behind a wall of exchange controls.

I will return to the central issue that was only in its early stages of emergence in the mid/late 1990s. More immediately another matter arose which was to bedevil business/government relations. While many South African companies had begun to expand internationally after 1990, they faced significant constraints principally in the form of substantial exchange controls. These controls were a legacy of the sanctions era. But aside from the practical question of the capital shortages during a period of economic restructuring, the prospect of lifting exchange controls even on a phased basis was controversial within the Tripartite Alliance. In the global economy a period of firm de-conglomerisation had taken place in the 1980s to which party South African companies were very late entrants, particularly in the mining industry. It was clear at the beginning of the 1990s that a process of consolidation through mergers and acquisitions would occur in the mining industry and that many companies save the largest would be threatened. Hence there was an incentive for South African mining companies, still leaders in the world, both to unbundle and restructure to focus on their core mining business, and then to merge with and acquire others internationally as a way of surviving. This was not possible from behind a wall of exchange controls.

Derek Keys, who was the first Finance Minister of the democratic South Africa in the mid-1990s, allowed Gencor a major mining company with which he had been associated, to acquire Royal Dutch Shell's mining interests and to list the resulting company, Billiton, in London. Deputy President Mbeki reluctantly accepted the logic of this move and accordingly approved a company restructuring of South Africa's leading company Anglo American which entailed moving its primary listing to London in 1999. A handful of other major South African companies followed suit.

Whilst these companies vehemently argued that their move to London did not represent a vote of no confidence in South Africa and would benefit the country through wider economic opportunities including inward flows of investment, the moves were deeply controversial. The listings were bitterly opposed by large sections of the Tripartite Alliance. That might be expected from its statist and non-market elements. But even those who were pro-market disliked the symbolism and were uneasy about the motives behind the moves. And there was reason: notwithstanding the commercial logic, many executives in the affected companies secretly, or not so secretly, saw this as a way of hedging their personal and company bets against a government which they did not altogether trust.

One of the long term effects of the London listings and corporate unbundling and restructuring in South Africa was to radically diminish the commitment to and resourcing of organised business in South Africa. However, for the moment involvement remained reasonably robust. Efforts were made through the 1990s and early millennium to restructure organised business to ensure that it better reflected the changing nature of the business community and society. In 1994 the CBM and Urban Foundation merged to create the National Business Initiative (NBI) a grouping of more progressive companies that innovated in the establishment of Business Against Crime (BAC) in 1995 and the Business Trust in 1998/9. The NBI worked also increasingly in the field of sustainability. Though the South African Foundation (SAF) remained behind the scenes as a body of the chief executives of big business, it was considered to be too 'old order' and tainted by its anti-sanctions stance during apartheid. Nevertheless, the ties between the NBI, SAF and other business organisations were blurred by cross-membership of companies and the leading role played by key individuals who sat in a number of, or even all, these bodies.

Because of its centrality to the economy during the apartheid era, its history of migratory labour and other health and safety issues, the Mining Charter received the most and earliest attention. The Charter discussions took place against the background of new mineral legislation that transferred mining rights from private to public ownership and set out a process of re-granting existing rights to the mining industry.

Also in the 1990s, the two major established chamber movements representing commerce and industry merged to form Business South Africa (BSA). Leaders of BSA and the other major business bodies strongly felt that it would be desirable to create a non-racial business body and so began discussions early in the millennium with the Black Business Council (BBC) a body comprising leading black executives and professionals. The result was the creation of Business Unity South Africa (BUSA) in 2001. It was recognised by many, though not all, that this was an artificial construct which would need to evolve as existing business continued to transform and new black businesses were created. It was artificial because it put together 19 sectoral bodies representing established often large companies in mining, banking, industry, etc, all in varying stages of transformation with a smaller number of smaller black professional associations representing black individuals. The attempt to present this as an equal partnership was undermined by the gross imbalance of funding and economic power. This stored up the seeds of future discord.

The new millennium also saw the emergence of stronger government intervention in Black Economic Empowerment or transformation (a looser term rarely carefully defined). Following on pressure from black business and the so-called Ramaphosa Black Economic Empowerment Commission, government proposed that each sector of the economy establish a Charter setting our goals and targets for transformation. Because of its centrality to the economy during the apartheid era, its history of migratory labour and other health and safety issues, the Mining Charter received the most and earliest attention. The Charter discussions took place against the background of new mineral legislation that transferred mining rights from private to public ownership and set out a process of re-granting existing rights to the mining industry. Widespread concern in the industry locally and internationally, given that the changes represented a clear weakening of property rights which had seemed to be guaranteed by the Constitution, reached crisis point when it was leaked that government was intending to compel mining companies to transfer 50% of their assets to black ownership. When this led to the overnight loss of 25% of the market capitalisation of mining companies, government denied that this had been its intention. (Whether the 50% had ever been a firm proposal or a negotiating tactic intended to soften up the industry has never become clear.)

Though the Treasury has laboured throughout the period that tendering and procurement is conducted on, as transparent and commercial terms as possible, with strictly defined and limited BEE offsets, the universal risks attendant on licensing and procurement has provided too strong a set of incentives to create a patronage system that rewards politically affiliated business people and facilitates corruption.

The mining legislation and Charter negotiations severely damaged business confidence. The pattern of state intervention through legislation and regulation that promoted subjective, bureaucratic and frequently inefficient and costly processes has come to represent one of the central disputes between major businesses and government. As elsewhere in the world, business constantly articulates the requirement for stability, certainty and clarity of legislation and regulation in the interests of planning and sustaining business activity over the long term. Government, distrustful of what it perceives as enduring racial capital unwilling to transform, believes it must intervene and give itself the freedom to constantly change the rules in the face of business's perceived intransigence. Avoiding parliamentary and constitutional scrutiny by introducing change through regulation rather than legislation and discretionary, subjective powers rather than objective constitutionally testable legislation is a much easier and more convenient route, by no means unique in the world. But, as elsewhere, this approach continues to undermine business confidence and this in turn promotes sub-optimal outcomes.

One way for government to promote empowerment and black business formation is to require certain levels of company empowerment as a condition of government licensing and procurement. Though the Treasury has laboured throughout the period that tendering and procurement is conducted on, as transparent and commercial terms as possible, with strictly defined and limited BEE offsets, the universal risks attendant on licensing and procurement has provided too strong a set of incentives to create a patronage system that rewards politically affiliated business people and facilitates corruption.

4 The second Mbeki term

A seminal development in the government/business development was marked by the release of the Ten Year Review of democracy in 2004. This represented a major shift in government thinking away from the essentially open and relatively market friendly approach of the previous decade that included elements of liberalisation, deregulation and privatisation. The thesis put forward by the Review was that where the state had been in charge the country had flourished and where the private sector had been allowed free rein the country had failed. (This was a startling assertion almost entirely unsupported by evidence and certainly on the basis of wider empirical consideration highly contestable. What was remarkable – and it was a commentary on the growingly co-opted posture of business – was that business did not push back at all on this claim.) What was therefore needed, the Review asserted, and what was accordingly adumbrated, was the remarkably undefined concept of a developmental state. Such a state would lead the economy and society, playing an activist and interventionist role. The private sector was to be relegated to the role of a supporter and implementer of government initiatives.

Though President Mbeki continued to ruthlessly dominate Cosatu and SACP within government, the developmental state ideology allowed old statists like Trade and Industry Minister Rob Davies to elaborate a major new front of intervention, the Industrial Policy Action Plan. This borrowed selectively from the south-east Asian experience to set up a renewed import substitution model based on rolling back the liberalisation and opening policies of the 1990s in the interests of picking winners and subsidisng favoured companies and sectors behind a protectionist wall. Though there was a strong BEE element to this, it remained classic statism of the kind fashionable in the 1960s and 1970s. But it was to provide horses – state procurement and subsidy – which both patronage business and manufacturers could ride together, and so it was popular amongst some business interests.

Business had always conceived the Business Trust as a five-year programme with a significant concentrated contribution (over R1-billion) that would end when the economy had stabilised and had begun to grow.

As indicated the import of the Ten Year Review was not clear to business at the time. Its relationship with government remained confused. The Business Trust had yielded some gains – close and successful cooperation in building tourism, in malaria reduction, in selected aspects of employment creation (such as the building of a very successful business outsourcing sector, as well as education). Also, the BBWG has begun to operate slightly more effectively towards the end of this period with a more coherent agenda and concrete cooperation in some areas.

Business had always conceived the Business Trust as a five-year programme with a significant concentrated contribution (over R1-billion) that would end when the economy had stabilised and had begun to grow. That was indeed the case by 2004 with growth in the new millennium moving up from 3% towards even higher growth of 5% in 2005 -2008, a period characterised by the pre-Global Financial Crisis (GFC) global boom. However the re-emergence in 2003/4 of the reparations debate that had raged in the 1990s, when a number of class actions were lodged in the US and South Africa against major multinationals involved in the apartheid economy, posed a dilemma for both government and big business.

Though many in the Alliance and ANC hankered for some punishment of big business for its perceived role during apartheid and believed it had not adequately come forward to confess its sins during the TRC process, the ANC had had its own difficulties with the TRC, had curtailed the implementation of government reparations for human rights victims and intensely disliked the idea that South African issues were within the remit of extra-territorial legislation, especially from the US.

The Mbeki administration was therefore minded to oppose the US class action and their domestic counterparts but sought to establish a President's Fund for broad socio-economic development along the lines that of President Vincente Fox of Mexico, to which business would contribute. Business however disliked the patronage inherent in such an instrument and therefore counter-proposed that the Business Trust be extended for a further five years, and this is what was eventually agreed.

The more fraught side of the relationship was illustrated by ongoing tensions over HIV/Aids, a catastrophe that directly affected business as a large employer of those infected, and over Zimbabwe where business both was concerned at the spillover potential of the Zimbabwe government's racial policies for South Africa, as well as having business interests directly threatened in Zimbabwe. Just how prickly the relationship could be was demonstrated by the furore President Mbeki created by bitterly criticising the CEO of Anglo American, Tony Trahar, for what Trahar considered to be constructive and positive comments about the investment climate in South Africa (inter alia he said that the business climate was improving as political risk in SA had diminished).

Yet government and the political class were not predisposed to listen to criticism from a business community who were perceived as corrupt themselves – each corrupt transaction with a civil servant or politician required in this view a business counterpart.

One of the complaints that government had about business was the fractured nature of business organisations that complicated business/government interactions. BUSA continued to struggle to recognise the needs of established business that required a national mandated umbrella body which could articulate its views in Nedlac and parliament, and those of many black members who were focused almost exclusively on transformation issues. At the same time, the old SA Foundation was rebranded and refocused as Business Leadership South Africa (BLSA), a policy/advocacy/lobby group of big business. Its emergence was received by suspicion by many in government and other parts of business, including organised business who saw it as a front for established 'white' business interests, but slowly over the period it became harder for government to ignore BLSA in the absence of other functional business bodies with coherent views.

In the second half of the 2000s corruption assumed a greater salience in South Africa as an issue undermining society and economic performance. The controversy over the 1990s arms deal lumbered on but perceptions that the country faced a real problem were sharpened by evidence of wrong doing on the part of leading politicians including deputy President Zuma as well as the phenomenon of tenderpreneurs. These were black entrepreneurs who became wealthy by soliciting tenders from government at national, provincial and local levels, often in ways that bypassed due process, and in areas where the lives of the poor were directly affected. Yet government and the political class were not predisposed to listen to criticism from a business community who were perceived as corrupt themselves – each corrupt transaction with a civil servant or politician required in this view a business counterpart. And from a left wing or racial perspective 'monopoly capital' continued to make excess profits from exploiting the poor and indulging in anti-competitive behaviour.

The strengthening of competition policy was a riposte to this behaviour, real and perceived. From a business perspective however many in government continued to have a one-eyed view on the subject as the largest monopolists were state owned enterprises which were leaders in the art of anti-competitive behaviour. Further, the industrial policy promoted by some in government looked to favouring and subsidising some firms over others rather than promoting market competition in the interests of the consumer. Hence it could be said that both the public and private sectors had complex vested interests that drove both to become able exponents of hypocrisy on competition matters. Yet greater competition (and attendant productivity and competitiveness) is one of the key structural requirements of the South African economy identified by all the recent major reviews of the SA economy in order to achieve a higher growth rate and more optimal growth outcomes.

5 The Zuma years

The ousting of President Mbeki after the Polokwane conference in early 2009 coincided with the global financial crisis and marked a new period of significant turbulence and uncertainty in government/business relations. The 'coalition of the wounded' – those who had been marginalised or suppressed by President Mbeki's autocratic management style – had little that unified them apart from opposition to Mbeki. As major members of the coalition, Cosatu and the SACP expected to get greater roles in and influence over government and to some extent did: a last minute addition to the economic cluster of ministers in President Zuma's new cabinet was the creation of an additional post of Economic Development (EDD) for Ebrahim Patel, a leading trade unionist in the textile sector. Trevor Manuel, the highly experienced Finance Minister of the previous decade who was closely associated with the centrist economic policies of GEAR, an anathema to Cosatu and the SACP, was moved to oversee the National Planning Commission. However, with no clear brief for all these new and old departments, a period of contestation between the economic ministries ensued.

With weak leadership and no interest in policy and a cabinet pulling in different directions both ideologically and departmentally, the ANC as a party, and especially the office of Secretary General, assumed a greater role particularly as later in the period the influence of the SACP and COSATU declined.

Although Patel was closer to Rob Davies, who remained as Trade and Industry Minister, in terms of ideological persuasion and was united in resisting the continuing macro-economic orthodoxy of the Treasury under the new Minister of Finance Pravin Gordhan, the turf war between EDD and the DTI was no less intense than that with Treasury. And the role of the Planning Commission also remained unclear for a considerable time – the statists disliked the independence of the commission just as they disliked the independence of the Reserve Bank, and would have been happier if both had been brought under direct state control.

Amidst this confusion on policy that President Zuma, as uninterested in policy as his predecessor has been interested, did nothing to clarify, existing institutions created by President Mbeki to foster dialogue with business such as the Working Groups were abandoned. Participation by government in the Business Trust withered on the vine, and representation on bodies such as the International Marketing Council, another Mbeki creation, were swiftly changed to reflect the interest groups within the Zuma coalition. Mainstream business was not amongst them.

The conflation of the State with the ruling Party, begun under President Mbeki, became a central theme under the Zuma Presidency. With weak leadership and no interest in policy and a cabinet pulling in different directions both ideologically and departmentally, the ANC as a party, and especially the office of Secretary General, assumed a greater role particularly as later in the period the influence of the SACP and COSATU declined. Not unrelated the rising tendency to personalised patronage rule by the President through careful placement of dependent allies characterised more recent times. Naturally this added a further complicating dimension to the business/government relationship.

With such confusion and contestation, there ensued some 18 months after the 2009 election when there was no formal dialogue between business and government besides meetings with individual ministers. Additionally Minister Patel assumed the role of coordinating South Africa's response to the GFC and imported his Nedlac-honed corporatist style of trying to create a pact or set of pacts between big business, big labour and big government. Though a minority of business had become increasingly sceptical of such corporatism, the deliberations on the response to the GFC proceeded to consume significant time and resources of all parties without concrete output.

With the trend towards patronage accelerating under a Presidency where family and associates were eager and active participants in politically directed wealth accumulation, supported by a cast of foreign and local carpetbaggers, ever more aggressive BEE legislation and legislation defined a set of business interests that were separate and at variance to the productive sector.

The hiatus in business/government relations coincided with a period of crisis within organised business itself. BUSA had never institutionally moved beyond its original artificial construct. Black professional associations who seldom paid their extremely modest dues and were little involved in issues aside from empowerment matters, nevertheless became increasingly critical of BUSA for failing to reflect their interests. They were not sanctioned by the leadership of BUSA (black and white) for failing to fulfill their constitutional obligations because of a fear of causing racial offence. Meanwhile the thinning out of senior corporate officials who were charged with thinking and lobbying on policy issues and representing business in various forums had progressed to a point where no more than a handful remained. And corporates generally were less and less willing to speak assertively of their interests especially if it involved any public criticism of government. The consequences were that organisations like BUSA were weakly led and ineffectual and the general stance of established business could be summarised as 'going along to get along'. Such a stance was reinforced when the few individuals and companies that raised their voices were swiftly and violently cut off at the knees by their political interlocutors.

The appointment of a new president for BUSA became the catalyst for the walkout by many of the professional associations of black business led by Jimmy Manyi's Black Management Forum (interestingly the majority of BMF members were civil servants) and Sandile Zungu, head of the reinvigorated Black Business Council and the losing presidential candidate. Though formally the leadership of the government regretted the rupture, practically it did much to promote it both funding and supporting the exclusively black organisations. These organisations also assumed a higher profile role in the delegations of business people taken on President Zuma's international travels.

With the trend towards patronage accelerating under a Presidency where family and associates were eager and active participants in politically directed wealth accumulation, supported by a cast of foreign and local carpetbaggers, ever more aggressive BEE legislation and legislation defined a set of business interests that were separate and at variance to the productive sector. Revised BEE policy in the form of the Broad Based Black Economic Empowerment Act of 2013, despite a rhetorical nod in the direction of including broader parts of the South African community, continued to emphasise and indeed increase a focus on the redistribution of ownership and control of existing productive assets to a few politically connected individuals. Hence the incentive to take risks, to innovate and establish new grass root businesses - small medium and large – was heavily reduced. This central aspect of BEE can therefore be said to have contributed to South Africa's sub-optimal economic performance as well as highlighting inequality in the country.

The constraints of a rigid labour market, lobbied for by a trade union movement vigorously promoting the interests of a narrow class of the existing unionised workforce, disincentivised entrepreneurial activity further. It also disincentivised the addition of new employees to existing firms, particularly those young and unskilled black south Africans who formed the bulk of the country's very large army of the unemployed.

Big companies continuously bemoaned the rigidities of the labour market but nevertheless routinely gave in to wage settlements well above inflation rates without any productivity clauses, and maintained the competitiveness of their businesses by shedding labour and raising prices. They ignored the plight of small and medium enterprises who had no such remedies.

The fault lines and differing interests within business are clearly delineated by attitudes to the country's labour legislation. In the early years of democracy, big business representatives had at least acquiesced in and, in some ways, been the architect of a labour relations regime that was more suited to a full employment northern European society than an emerging economy with serious unemployment challenges. But as evidence of its cost emerged, business became more critical, but in a diffuse and ineffectual way. Big companies continuously bemoaned the rigidities of the labour market but nevertheless routinely gave in to wage settlements well above inflation rates without any productivity clauses, and maintained the competitiveness of their businesses by shedding labour and raising prices. They ignored the plight of small and medium enterprises who had no such remedies. Even when President Zuma's administration, partly at the behest of its Cosatu allies, introduced four new major pieces of legislation that dramatically tightened labour laws, business opposition proved no more strategic or effective. An initial thrust to draw a line of total rejection at Nedlac in 2011/12 was followed by a retreat into the usual compromise mode which allowed government and its Cosatu allies to outmaneuver business with only limited dilution to the legislation eventually promulgated in 2014.

Nevertheless, the expectation by Cosatu and the SACP that they would be able to shift the direction of economic policy making within the Zuma administration decisively to the left was not fulfilled. Rather the process of policy contestation continued. Over a period of three years, three major and contradictory policy documents emerged. The first was the New Growth Path authored by Minister Patel and his EDD. This set out the developmental state approach which sought to create a series of new higher skill, higher wage, but ironically more capital and energy rather than labour intensive industries at a time when South Africa was rapidly running short of both capital and energy. The state would catalyse higher growth through a major new infrastructural push, 95% of which would be funded and directed by the state and its key strategic state-owned enterprises. The private sector, rhetorically recognised as the driver of growth and employment, was practically assigned a clearly subordinate role.

Though it shared some similarities, it was not totally congruent with the various iterations of the Industrial Policy Action Plan (IPAP), a protectionist inward industrial programme that also posited state intervention in and support of a very wide range of capital intensive industries. Both of these policies were aimed at the workers their authors wished South Africa had, the skilled who would be offered higher wages in so-called 'decent' jobs, rather than the overwhelming reality of the army of young and unskilled South Africans prevented from entering the job market at all by the barriers created by labour laws and union protectionism.

Despite the fact that big business leaders serve on the Planning Commission and business has strongly supported the NDP, business leaders have continued to participate in and lend credibility to initiatives that are palpably unfriendly to market approaches, such as the idealistic 'compacts' that are promoted by Minister Patel.

The third document, the National Development Plan, was a more market-friendly though unwieldy and aspirational document. It was officially adopted as policy by the second Zuma administration in 2014 over the continuing opposition of Cosatu and SACP. To some extent this reflected the declining influence of a Cosatu at war with itself and with the new rising star of unionism, Amcu, in the wake of the seminal Marikana massacre of August 2012. There were also pressures from the more conservative patronage business elite whose interests were hostile to those of the left.

Notwithstanding this, because the Cabinets of the first and second Zuma Administration continued to reflect the full spectrum of ideological views – in fact the second cabinet was substantially larger and even more diverse – and in the absence of any strong leadership from the top, Ministers and their Departments felt free to continue to promote policies and legislation which directly contradicted the thrust of the NDP. An important feature of the post-Marikana period was the rise of the EFF after Julius Malema was expelled from the ANC, espousing a populist rhetoric that threatened to outflank the ANC. In turn this encouraged populist responses from the ANC in areas such as land reform policy, further threatening property rights.

Despite the fact that big business leaders serve on the Planning Commission and business has strongly supported the NDP, business leaders have continued to participate in and lend credibility to initiatives that are palpably unfriendly to market approaches, such as the idealistic 'compacts' that are promoted by Minister Patel. These posit business as a single, centrally directed actor willing and able to deliver a complex set of itemised commitments and actions that frequently go against business's deepest interests and inclinations.

To take another example: business opposed the creation by government of Sectoral Education and Training Authorities (SETAs) as institutions that would be unnecessarily bureaucratic and open to corruption. They considered funding and training of workers to be properly the remit of companies. When these SETAs more than fulfilled their predictions of bureaucratic inertia and corruption and undermined, delayed and made more expensive the pipeline of skills, very few in business were willing to argue that the SETAs should simply be closed, even after years of incremental attempts to 'improve' these institutions had continued to yield little progress. No doubt a major effort by business could yield some gains in efficiency, but the fundamental structural problem of their statist and bureaucratic design would remain.

6 The commodities bust, declining growth and the 9/12 crisis

As the impact of the commodities bust induced by China's change away from an export to a consumption strategy bit after 2011, the threadbare nature of the South African economic 'model' became clearer. None of the key structural inhibitors of growth were tackled; in fact, the constraints were actively worsened by legislation, as in the four major labour law revisions referred to above, or by declining SOE performance, as the majority of SOEs were riven by governance challenges and as inefficiences drove up administered prices, with energy shortages being a key economic constraint from 2008; or by deteriorating macro balances characterised inter alia by a burgeoning public sector wage bill, growing trade and fiscal deficits and growing cost of borrowing and debt servicing.

Aside from Treasury, the Zuma Administration seemed blithely unaware of the looming economic crunch: ambitious plans for a National Health Scheme and a 9600 MW nuclear build were advanced without any serious thought as to how they would be financed - and these are just the most prominent of a long list of other spending plans.

The warnings of Treasury and external agencies fell on deaf ears in an Administration and ruling party almost entirely captured by the patronage interests of the President, his family and cronies.

But it was clear to many observers – the ratings agencies, the IMF, the World Bank and some private sector economists, that South Africa's potential as well as actual growth rate was steadily declining to the low single digits and that a fiscal crunch was just around the corner: there would simply be no more money, not just for future schemes but even to service government's existing needs and programmes.

The warnings of Treasury and external agencies fell on deaf ears in an Administration and ruling party almost entirely captured by the patronage interests of the President, his family and cronies. Ministers and senior officials who did not do the bidding of these interests were moved so that virtually the only institutions left that were independent were the Judiciary, the Public Protector and the Treasury (SARS having seemingly fallen to the machinations of the security apparatus acting on behalf of the interests referred to above).

Throughout the period 2012 – 2015, organised business stuck to its model of 'going along to get along', avoiding either criticising government or defending its interests and those of the economy in public, whilst also not fundamentally challenging the root causes of the country's malaise. Efforts by BLSA and BUSA to partner government programmes and build trust bore little fruit.

It was only when President Zuma, emboldened by his recent success in replacing Minister of Mines Ngoako Ramathlodi with a pliant nonentity, fired Minister Nhlanhla Nene on 9 December 2015 for insisting on a proper cost analysis of the nuclear build and resisting the transparently corrupt schemes of the President's close friend and Chairman of SAA, Dudu Myeni, that the international and local markets precipitated a crisis and allowed for a potential reassessment by business of its strategy and tactics towards government relations.

Whilst there has been significant support for the reappointed Minister Pravin Gordhan and his endeavours to prevent a disastrous credit downgrade, the early assumption that he would be able to leverage the crisis to begin to effect institutional change, starting with those bodies under his (nominal) control, SARS and SAA, underestimated the power of those interests ranged against reform.

The group of mainly banking CEOs who met Minister Radebe and Zweli Mkize, the ANC Treasurer General, three days after the firing of Minister Nene, contributed to the reversal of the appointment of his successor and the reappointment of Pravin Gordhan as Finance Minister. The same group of CEOs, somewhat broadened, then had extensive discussions with the President and Finance Minister ahead of the World Economic Forum in January and the Opening of Parliament and the State of the Nation Address by the President in early February. The President's address referenced some of the eight points set out by the CEOs to get the economy going, as did the Budget later in the month.

Yet business remains for the most part publicly silent in the face of the political and economic struggle.

Subsequently three working groups headed by senior CEOs, working with state officials, were deputed to carry some of these ideas forward in the fields of reinvigorating both ailing and more promising industries to accelerate growth, stimulating small and medium business, and boosting confidence in the South African economy. There is considerable energy and commitment behind this new proactive partnership approach that has also drawn in trade union participation. It is also notable that both senior black and white business leadership is involved, though BLSA is notable by its organizational absence.

Yet these groups are ad hoc interventions that run in parallel with ever more egregious evidence of state capture by private business interests and the political corruption of key agencies and SOEs by these interests, often using the security apparatus and seemingly acting on behalf of the President.

Hence, for example, the Hawks investigation of the so-called 'Rogue Unit' in SARS and the mailing of 27 questions to Minister Gordhan just before he delivered the budget. This together with the bizarre press conference called by the Minister of Police Nathi Nhleko (thoroughly discredited by the Nkandla scandal) and the Minister of State Security David Mahlobo, are widely interpreted as part of the President's push back measures to prevent Minister Gordhan from tackling governance issues, starting with SARS and SAA.

Notwithstanding their solid support for Minister Gordhan, some CEOs declined to accompany Minister Gordhan on his mission abroad to raise confidence of investors and prevent a ratings downgrade, on the grounds that the political issues at the heart of the loss of investor confidence are not being tackled and indeed are being deliberately ignored. Yet business remains for the most part publicly silent in the face of the political and economic struggle. Meantime the President and the ANC continue to pursue an electoral strategy for the local government elections that combines populist land reform with minimum wages demanded by organised labour and racial rhetoric to neutralise the opposition DA. All these are guaranteed to erode investor confidence and growth further and to undermine the supposed national priority of avoiding a credit downgrade.

Conclusion

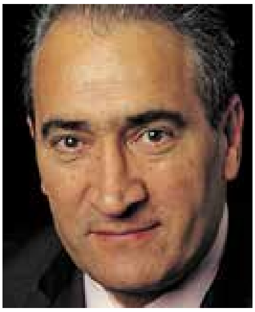
At the time of writing, the political struggle between reformers who under the leadership of Treasury seek to escape the low growth trap and are insistent on good governance and independent institutions, and those whose patronage interests require the undermining of the independence of those same institutions, remains unresolved.

South Africa isn't the only emerging world democracy to face the conundrum of a low growth, state capitalism environment; the BRICS nations immediately spring to mind, particularly Brazil which has suffered serial rating downgrades and which is in deep recession. But compared to Brazil, the business and government communities in South Africa are less homogenous and have the burden of an apartheid past and an increasingly fractious liberation movement held together more by referencing the divided past than building the unified future.

The 9/12 crisis represents the best opportunity to build a new strategy of engagement with government that is based on a clear view of the need to facilitate the structural impediments to higher economic growth, including failed political leadership. But it will require even bolder leadership from black and white business leaders and much greater investment in more unified and effective business organisations.

This article is based on research conducted for The Centre for Development and Enterprise's project 'The Growth Agenda: Priorities for Mass Employment and Inclusion', whose reports will be released in early April 2016.

Avoiding SA's Junk-Grade Sovereign Credit Rating



Iraj Abedian is the founder and Chief Executive of Pan-African Capital Holdings (Pty) Ltd. He was professor of economics at the University of Cape Town, before entering the business sector in 2000. He obtained his BA (Honours) and MA in Economics from University of Cape Town (UCT). He received his PhD in Economics from Simon Fraser University in Canada in 1993. He has served as a consultant on economic policy issues to public and private sector organizations in South Africa as well as internationally.

Nowadays, South Africa's (SA) sovereign credit rating is teetering on the brink of junk-status downgrade. President Zuma in his SONA 2016 highlighted the concern, and Minister of Finance, Pravin Gordhan, dedicated a significant part of his Budget Speech 2016 on 24 February, to the vital importance of avoiding a junk-grade rating at all costs. Precipitated by the so-called Nenegate of 1 December 2015, SA is at once gazing at the precipice of sub-investment grade credit rating. The country took ten consistent years from 1995 to 2005 to put its house in order to be fit for credit assessment first, and then a relatively sharp ascent to rising creditworthiness. As a result, the cost of borrowing for the state and for SA corporates declined sharply.

The Apartheid regime had left behind a country unfit for external credit assessment. After the birth of the democratic dispensation, a plethora of institutional restructuring, fine-tuning, and policy arrangements had to be put in place – all carefully and systematically coordinated. SA had to raise its credit rating to and above the 'investment grade' ranking as quickly as possible and position itself in the competitive global race for access to global capital within the peer country ranking. For SA with so much socio-economic backlog, together with a low and insufficient national savings rate, access to global capital markets was vital for the success of the new dispensation. That imperative has not yet changed, and will remain so for a long while still.

In the remainder of this paper, some of the concepts are fleshed out, the case for retaining the country's investment-grade rating is analyzed, and to this end some policy options are proposed.

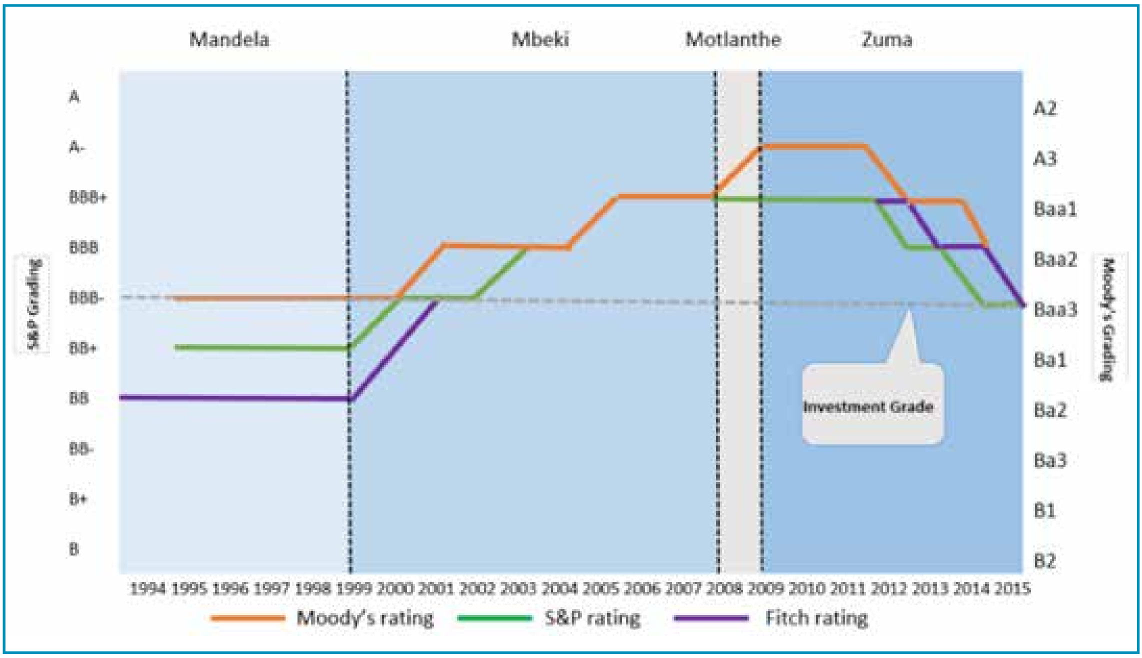
What is "junk- grade"?

A junk-grade, or sub-investment-grade, rating refers to the credit-worthiness of the borrowing entity, be it a corporate, a municipality or a national government. Whenever an entity faces a default possibility in the medium to long term, its bonds are rated as sub-investment grade. When the likelihood of default by the borrowing entity is high, the lenders in the capital market have a fiduciary responsibility to protect the interest of their institutions and/or investor members. More often than not, the capital market fund managers are using the pension or provident funds of a large group of workers, or the savings of a nation in a sovereign fund, to buy long-dated bonds that borrowers bring to the market. Some of these bonds may have a duration of 20 years or longer. For the lenders it is important to assess the likelihood of default over this period.

The rating agencies play a supposedly critical and impartial role in assessing the borrower's creditworthiness, providing a public technical ranking report. Importantly, such reports are produced at the behest of the borrowing entity. Whilst such reports are by no means perfect, they nonetheless establish an open matrix of financial and non-financial sustainability for the borrower. When it comes to national governments, the credit rating assessment involves not just financial but also socio-political variables that influence social stability, institutional capability, and policy certainty. Over time, the matrix of country-rating in particular has evolved to include variables on both the short-term and medium-term sustainability of growth, fiscal policy, and socio-political stability.

In general, the better a country's credit-rating, the cheaper it can borrow funds in the global capital markets. So, beyond and below the last investment grading levels, there are additional notches for upgrading or downgrading a government's creditworthiness. As such, the route to investment grade rating entails a complex blend of policy configuration, institutional structuring, sound governance, and competent financial management practices.

Conversely, a government facing a junk-status downgrade entails a sustained disregard for the country's growth dynamics, poor fiscal management, erosion of the public sector balance sheet and insensitivity to policy inconsistency over a number of years. South Africa over the period 2008 to 2015 has been a case in point. The country's sovereign credit rating has suffered as a result. It has been downgraded twice over the period, and now remains only one notch above the investment grade ranking (as graded by two of the three key rating agencies, i.e. S&P and Fitch[2]). The diagram below shows South Africa's credit rating history since 1994.



Critically, the fiduciary obligations of institutional investors prevent them from investing in countries with junk-graded status. More often than not, they are also obliged to exit their existing exposures and disinvest from such jurisdictions. This leads to short-term currency depreciation, added market volatility, and macroeconomic instability.

Why does it matter?

South Africa is a low saving nation. This is primarily due to the country's persistent high structural unemployment rate, accentuated by widespread poverty and working class poverty. As a result the national savings rate hovers around 15% of GDP whilst the required national investment for sustaining growth rates of 3% or more is well over 30% of GDP. This means unless South Africa can access other nations' savings, and be able to do so at reasonable rates, it cannot grow its economy beyond 1.5% on sustainable basis.

More specifically, the prevalence of the triple evils of unemployment, poverty and inequality means that the country has two concurrent requirements if it hopes to change the socio-economic configuration. One is sustainable economic growth averaging over 3% per annum; the other a resourceful, competent and developmental public sector. Importantly, both these requirements depend heavily on access to the global capital markets.

When a government credit rating is junk-graded, all the private sector corporates, state-owned enterprises (SOEs), and sub-national entities are likewise junk-graded for their global borrowing requirements. The cost of capital for the country as a whole rises accordingly. This leads to a decline in investments, economic growth, job creation, and tax revenues for the state. And, the longer it takes to end the junk-status, the more the business environment becomes constrained. This makes it harder for the state to deal with socio-economic imbalances and the restoration of macroeconomic stability. This in turn exacerbates the historic structural inequalities and social inequities.

The upshot of a rise in the cost of capital for the country, limited access to capital markets, and constricted business environment eventuates in a low-growth equilibrium trap – a far cry from the minimum growth rates needed for sustaining the developmental gains made since 1994.

Consequences of a junk-downgrade

There are two broad consequences arising from a credit junk-grade. One is political, the other financial. On the political front, when the government cannot borrow from the capital markets, its only remaining global source is to borrow from other governments and multinational institutions such as the IMF. This leads to a loss of sovereignty over national macroeconomic and sectoral policies. Typically, such funding comes with unpalatable and, often times, disruptive conditions attached. The notorious structural adjustments imposed by the IMF and the World Bank are cases in point.

> *It may be argued that the country's credit rating status will impact on its standing in the African continent, and more broadly internationally.*

Minister Gordhan has been vocal on this potential loss of "policy sovereignty". In his Budget Speech 2016, he underlined this critical outcome, raising the clarion call to all South Africans, both in the public and private sectors, to do all within their powers to prevent a junk-status. The political implications of a SA government junk-downgrade extend beyond the borders of the country, having implications for the poorer neighbouring countries such as Lesotho, Swaziland, and Zimbabwe. It may be argued that the country's credit rating status will impact on its standing in the African continent, and more broadly internationally.

From a financial point of view, as mentioned above, the impact of a junk-downgrade destabilizes the macroeconomic framework. It confines the government borrowing largely to the domestic capital market, thereby causing systemic crowding-out effects. In the short term it leads to currency depreciation, escalating inflation, rising interest rates, and a fall in investments. Fiscal revenues decline accordingly, leading to rising tax levels, exacerbating an already depressed business environment. The cost of government borrowing grows, taking the budgetary framework towards fiscal stress. At present, the cost of public debt exceeds 11% of the national budget which is currently the fastest growing budgetary expenditure. The more this figure grows, the less is left for other essential public services such as healthcare, education, and social welfare. The ultimate outcome is a decline in the average national standard of living. Predictably, the public sector would be trimmed down and public services would suffer most. Poverty is likely to worsen, and social stability will become more fragile.

Who will suffer most?

The aforementioned cursory review highlights the fact that a junk-grade status has ramifications for the entire nation, both the rich and poor. However, to the extent that the poor have a high degree of reliance on public services, they suffer more in the short term. At present, over 16 million SA citizens receive monthly welfare payments of one kind or another. This has been a major public policy intervention to curb the plight of the poor. A major contributing factor that enabled the government to finance such large-scale redistribution was access to the global capital markets that facilitated the country's growth and rising tax revenues. Vastly improved fiscal management of public debt, cash management and a host of other factors also made a contribution. The country's rising creditworthiness helped reduce the cost of capital for not only the government, but also the private sector.

Alongside the poor, the younger generations too stand to lose a great deal – primarily due to economic stagnation, lack of employment opportunities, and limited scope for upward mobility. Typically, in such a milieu the country ends up losing a great deal of young talent and skilled labour. The medium term consequences of the mismanagement of the prevailing crisis of creditworthiness is thus deep and wide.

As evidenced by recent data, economic growth has dwindled to well below 1% and public resource management has degenerated to dangerous levels and where the public discourse revolves around the possible 'capture of the state'.

How to avoid a junk-status?

Creditworthiness is a process and not an event. It entails a web of interrelated policy formulation, institutional structuring and governance, and fiscal management. All said and done, two factors enhance (or undermine) a country's creditworthiness. One is sustainable economic growth; the other sound fiscal management. Each of these two factors in turn has a number of basic requirements.

Economic growth requires sustained investment and socio-economic capital formation. Hence, business confidence is critical. Shoring up confidence, in turn, requires policy consistency and ethical governance. Sustainable growth, in particular, requires effective solutions for issues of poverty, unemployment, and income inequalities. The more these issues are dealt with, the fewer risks remain to the investment environment.

At the same time, sound fiscal practices are vital for the promotion of fairness and equity in society. The collection of fiscal revenues and an appropriate allocation and utilization of public resources form the very foundation of socio-economic prosperity of a nation.

Over the past decade, SA has regressed on these two fronts. As evidenced by recent data, economic growth has dwindled to well below 1% and public resource management has degenerated to dangerous levels and where the public discourse revolves around the possible 'capture of the state'. As a result the current crisis of creditworthiness has arisen.

To avoid a junk-downgrade, a systematic and coherent change of 'policy course' in the country's political economy management is needed. First and foremost, the political leadership should acknowledge the urgency of a step-change. To this end, the Minister of Finance in his Budget Speech 2016 called for such a clear step-change to avoid any further deepening of the crisis. It remains to be seen how the rest of the Cabinet will cohere around the Minister's clarion call. The rest of the economic cluster ministers have remained largely quiet, implicitly expressing discomfort and inability to change intellectual and behavioural course. This does

not help, particularly in light of the recent history of policy inconsistencies and contradictions displayed by the Cabinet Ministers since 2009. The urgency of the situation does not seem to have registered within the Cabinet. This needs urgent, visible and tangible resolution.

> *It is common knowledge that the SOEs have been the playground of patrimonial political leadership, crony-capitalism, and manifest rent-seeking over the past decade.*

Flowing from the position of the Cabinet is the restoration of good governance, competent management and rebuilding of the asset base of the SOEs. It is common knowledge that the SOEs have been the playground of patrimonial political leadership, crony-capitalism, and manifest rent-seeking over the past decade. As a result, their organizational integrity has been severely compromised, their balance-sheets hollowed out, and their corporate brands largely destroyed. They have become a considerable drain on the fiscus, undermining its creditworthiness. No government can achieve fiscal and financial sustainability in such a milieu. Nor can it hope to be effective in underpinning socio-economic development. As such, instead of playing "process politics" with these vital entities, bold and effective business turn-around strategies are needed. The corrective actions are fairly well known, and tested and tried solutions are readily available from the experience at home and the world over. No need to reinvent the wheel, and most certainly no time to lose.

The Private Sector has an indispensable role to play in avoiding the junk-downgrade. Whereas the above-mentioned Cabinet step-change and the restoration of the SOEs are critically necessary conditions, they, on their own, would not be sufficient to deal with the prevailing crisis. After all, the lion's share of investable resources and managerial capability lies with the private sector. And, as highlighted earlier, unless and until economy-wide investment flows are restored, economic growth would not result and, as such, the crisis would only deepen.

It is a fact that at present the private sector is largely skeptical, business confidence has sunk to its lowest level since 1994, and the macroeconomic environment is by and large unfavourable – thanks mainly to the political economy milieu since 2008. Yet, national interest as well as the enlightened self-interest of the business sector calls for a meaningful and urgent step-change on the part of the Private Sector too. Both symbolic and substantive changes are needed. In this regard the joint effort of the Minister of Finance and a large group of the private sector executives is a positive development – a necessary symbolic condition, but not sufficient. Other economic cluster ministers need to get involved. Furthermore, specific investment opportunities need to be identified in various sectors of the economy, their success conditions assessed and joint private and public sector efforts would need to be made to restore the growth trajectory. The credibility of the medium-term sustainability of the National Treasury's fiscal consolidation strategy would depend on the economy-wide investments made by the Private Sector.

Civil society too has a vital role to play in enhancing the country's creditworthiness. Successful governance of modern societies calls for active and constructive citizens' participation in the promotion of good governance in public and private sectors, prevention of abusive and corrupt practices, and vigilance over constitutional institutions of governance.

Successful governance of modern societies calls for active and constructive citizens' participation in the promotion of good governance in public and private sectors, prevention of abusive and corrupt practices, and vigilance over constitutional institutions of governance.

Given South Africa's fractured past and its prevailing social tensions, civil society organizations have the added burden of contributing to the systematic and consistent elimination of the root causes of socio-political risks emanating from the evident societal failures of the past and the present. The subject is too broad to be fully analyzed in the confines of the present paper. Suffice to say, sustainable growth and development in modern societies require ongoing creation and augmentation of social capital. To this end, civil society organizations play a pivotal role.

Last, and not the least, of the role players in the prevailing credit crisis are the labour unions. Over the past decade, the trade union leaders have become the source of much political economy instability, disruptions at the workplace and the cause of labour unions implosion. All these in a period when technological innovations and the digital revolution have brought about tectonic and permanent changes to the skills profiles across all sectors of the economy worldwide. By losing focus on the binding structural and technological issues that affect job security and the welfare of their members, the union leaders have inadvertently contributed to the emergence of a business environment that lacks stability at the workplace and is not optimal for long term risk taking investments. Much like the government and the business sector, the trade union leaders too need an effective and transparent step-change.

To avoid a junk-downgrade, South Africa's key socio-economic and political role players need to 'reboot' – using the expressive jargon of the digital age.

Concluding remarks

SA faces a real crisis of creditworthiness in 2016. No amount of denialism, political spin doctoring or ideological posturing is going to avoid a deeper crisis which is likely to spread from fiscal-financial to socio-economic arenas. As explicitly highlighted by the Minister of Finance in his Budget Speech 2016, the crisis should not be wasted. Rather it has occasioned an opportunity for pulling back on track all the country's capabilities towards a new and powerful wave of patriotic, collaborative and constructive 'reboot' by all socio-economic and political stakeholders. However hard this may sound, the alternative is too ghastly to contemplate. A junk-status downgrade can be avoided. But it calls for a new mindset alongside urgent action by all those in key positions of leadership across our society.

NOTE

1 Nenegate refers to President Zuma's sacking of Minister Nhlanhla Nene on December 9th, 2015, replacing him with an unknown back bencher MP, Mr Des Van Rooyen. The President was persuaded to replace Des Van Rooyen after the markets went to a tail spin, causing tens of billions of rand damage to the SA economy, and throwing the country's policy credibility into serious doubt.

2 At the time of writing, Moody's has placed SA Government's rating up for review. Moody's rating of the SA government sovereign rating is two notches above the investment grade; chances are high that it will lower the rating and will be in line with the other two rating agencies.

Fiscal Policy and Development

Charles Simkins
is a distinguished Economist. He was Vice President and Professor of Economics at St Augustine College and formerly held the Helen Suzman Chair of Political Economy at Wits University. He is a former Rhodes Scholar and is a recipient of the Helen Suzman Chevening Fellowship, a UK Foreign Office award. He is currently the Senior Researcher at the Helen Suzman Foundation'

The Reserve Bank has two main functions: to ensure the soundness of the financial system and to affect macroeconomic conditions through the setting of short term interest rates in order to meet an inflation target set by the Treasury. Exercising these functions is technically complex, but the economic consequence of them is expressed in a single variable: the repo rate.

It is otherwise with fiscal policy. Fiscal policy affects development in three ways. First, it determines the flow of funds through the arteries, veins and capillaries of the public financial system. Some parts of it grow, some parts remain static and some parts decline. Secondly, the tax and government expenditure transforms the market determined distribution of income into a distribution post taxes and expenditure. Thirdly, fiscal policy also affects macroeconomic outcomes, principally through the size of the budget deficit.

The first function can be illustrated by way of an example. Health policy emphasises the importance of primary health care, so the public financial question comes down to the proportion of the health budget spent on it. Since the provision of publicly supported primary health care is the responsibility of the provinces, one has to consider consolidated national and provincial expenditure. In fact, the greater part of the national health budget consists of transfers, via several conditional grants, to the provinces. Provinces also receive an equitable share of national revenue, and are able to decide which portion of the equitable share is allocated to health. Moreover, provinces also receive revenue from users of its health services. Outcomes depend on all these factors.

In constant 2015/16 prices primary health care (all district health expenditure except administration, coroner services and district hospitals) rose from R594 per capita in 2011/12 to R709 in 2015/16. The 2016/17 Medium Term Expenditure Framework projects per capita spending to remain at this level until 2018/19. Primary health care is protected in the Medium Term Expenditure Framework (MTEF), but there is no room to increase real per capita resources allocated to it for three years. This delays the Department of Health's key objective of consolidating and improving primary healthcare (PHC), as preparation for National Health Insurance. Expenditure on HIV/AIDS imposes a heavy toll on primary health care. It accounted for 35% of the median province's PHC spending in 2015/16. It is getting heavier. Despite a constant real per capita expenditure on PHC in the next three years, the conditional grant to cover HIV/AIDS and tuberculosis is projected to rise from R249 to R286, crowding out expenditure on other conditions.

In a 2014 study[1], the World Bank found that the South African tax system is slightly progressive and spending is highly progressive. The rich in South Africa bear the brunt of taxes, and the government effectively redirects these tax resources to the poorest in society to raise their incomes. But the fiscal space to spend more to achieve even greater redistribution is extremely limited. To reduce poverty through the fiscal system more inclusive growth, and more efficient public service are required. Yet real per capita income is likely to grow at an average rate of 0.8% over the next three years.

Moreover, the Medium Term Expenditure Framework forming part of the 2016 Budget raises some questions about the sustainability of its projections.

1 *Government employees.*

The National Budget Review states that from 1 April 2016, appointments to non-critical vacant posts will be blocked on government's payroll system, pending the submission of revised human resource plans. Teachers, nurses, doctors, police officers and other critical posts will be excluded from the block.

Given that earnings growth is projected at 8.5% and the compensation budget is to grow at 7.4%, public sector employment must shrink by 3% between 2015/16 and 2018/19. This contrasts with a growth of 3.7% per annum between 2008 and 2014.[2] Given that teachers, nurses, doctors and police officers are exempt from the block, the required contraction in the unprotected sector of public employment will be sharper. The question is: can the government hold the line on appointments? Its record on wage increases would suggest otherwise.

The question is: can the government hold the line on appointments? Its record on wage increases would suggest otherwise.

2 *Taxation*

In 2016/17, taxes are projected to raise an additional gross revenue of R18.1 billion. The additional amount comprises R9.5 billion through higher excise duties, the general fuel levy and other environmental taxes. Adjustments to capital gains tax and transfer duty will raise R2 billion. An amount of R7.6 billion will be raised as a result of limited fiscal drag relief, less R1.1 billion for an increase in medical scheme tax credits.

That deals with the current financial year. What will happen in the two following years is work in progress. There is a commitment not to unduly prejudice economic growth or poor households. The Medium Term Expenditure Framework projects an increase in tax revenue of 22.1% between 2016/17 and 2018/19. As a baseline, personal income tax is projected to rise by 17.8%, corporate income tax by 17.6% and VAT by 14.9%, with additional taxation of R15 billion in 2017/18 and R31 billion in 2018/19 to be distributed over all tax categories, implying a further 2.2% in the latter year. Taxation as a proportion of GDP will rise from 26.8% to 27.8% between these years. Since it is unlikely that the package of additions other than in personal income tax will be further imposed in the next two budgets, heavier personal income tax is coming, and increase is the corporate tax and VAT rates will have to be seriously considered.

3 *Changes in the pattern of spending*

The annual increase in spending over the MTEF period is 7.1%, with social protection (8.1%), post-school education and training (7.9%), basic education (7.4%) and economic affairs (7.2%) coming in at above the average. Below average are defence, public order and safety (5.9%), human settlements and municipal infrastructure (6.7%), agriculture, rural development and land reform (4.9%), and general public services(-5.4%) . In real terms, this amounts to cuts in the defence, public order and safety, agricultural, rural development and land reform and general public services budgets. Like health, social protection, post-school education and training and basic education will be approximately stabilised in per capita terms. Defence, public order and safety will not.

4 *State owned enterprises and social security funds.*

According to the 2016 Budget, in 2014/15, state owned companies has asserts of R1 042 billion and liabilities of R737 billion, so that net worth was R305 billion. These statistics relate to institutions listed under Sections 2, 3A and 3B of the Public Finance Management Act. The return on assets deteriorated from 7.5% in 2011/12 to -2.9% in 2014/15. There were large losses in the Central Energy Fund (CEF) and South African Airways (SAA) during 2014/15. More broadly, in the third quarter of 2014, the Reserve bank put assets of non-financial public enterprises and corporations at R1 335 billion, and liabilities (less capital funds, reserves and unallocated profits) at R843 billion, so that net worth was R492 billion.

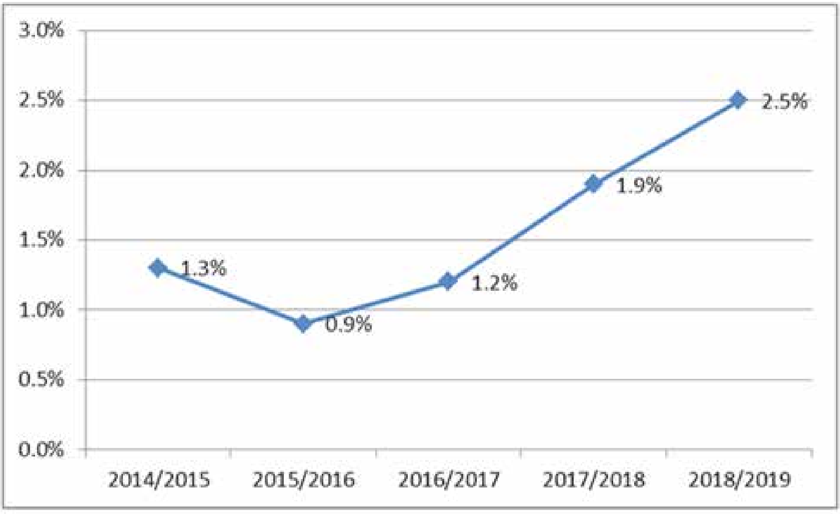
Rationalisation of state holdings and private-sector participation are being considered. Any hint of disposal of state owned companies has raised determined resistance over the last twenty years.

Government issues guarantees to various state-owned companies. These guarantees amount to R467 billion as at 31 March 2016. 75 per cent are issued to Eskom and 8 per cent to the South African National Roads Agency Limited (SANRAL). In 2015/16, one new guarantee for R2.5 billion was issued to the South African Post Office (SAPO). Only the portion of the guarantees that these companies have borrowed against – known as the exposure amount – is a contingent liability to government. Creditors can call on government to service or pay off the guaranteed debt on which an entity has defaulted. Exposure rose from R210 billion in 2013/14 to R258 billion in 2015/16. Guarantees can be converted into exposure as state owned companies extend their borrowing.

Several SOEs are not in good financial health. Significant fiscal risks lurk here in the form of further guarantees being required for solvency and possible bail out grants. The government is conducting a broad programme of reforms aim to stabilise entities and resolve governance concerns. Rationalisation of state holdings and private-sector participation are being considered. Any hint of disposal of state owned companies has raised determined resistance over the last twenty years.

Three social security funds exist – the Unemployment Insurance Fund, the Road Accident Fund and the Compensation Fund. The Compensation Fund pays benefits to workers who experience loss of income as a result of injury, death or disease in the course of employment. The net asset value of the Unemployment Insurance Fund in 2015/16 was R123 billion, with a further R39 billion in the Compensation Fund. These positive values are largely offset by a net asset value of the Road Accident Fund of – R135 billion. The Road Accident Fund has been insolvent for many years, and its net asset value is projected to reach -R222 billion in 2018/19. The government intends to replace the RAF with the Road Accident Benefit Scheme (RABS). The RABS will be more equitable and affordable, providing limited income, medical, rehabilitation and funeral benefits. Funded through the fuel levy, RABS will be based on social security principles, moving away from the current liability insurance system.

South Africa: 2016 budget real GDP growth forecasts



Source National Treasury

5 ***Budget deficits and the public debt.***

The 2016 Budget projects that the budget deficit will decrease from R158 billion (3.9% of GDP) in 2015/16 to R124 billion (2.4% of GDP) in 2018/19. This increase, combined with lower nominal GDP, results in net debt stabilising at 46.2 per cent of GDP in 2017/18, a significant increase occasioned by the increase in rand value of foreign debt.

Much will depend on the National Treasury's ability to control expenditure strictly. Greater clout for the Treasury is required.

Conclusion

The analysis demonstrates, as observers have noted, the precariousness of our fiscal situation. The projections are, as always, dependent on the rate of growth, and failure to achieve the projected rates will mean that revenue will fall below projections. Moreover, any number of pressures may cause forced increases in expenditure. At the same time, there is no prospect of improving real per capita spending on social services for the next three years. Stabilization of current conditions is about the best we can do. Higher levels of taxation are in prospect. Much will depend on the National Treasury's ability to control expenditure strictly. Greater clout for the Treasury is required. Even then, accidents will happen.

While each Budget offers a new opportunity for bringing revenue and expenditure into alignment in new ways and therefore of controlling the growth of public debt, it is certain that we shall need a more austere approach to public finance than we have had for several years.

NOTE
1 World Bank, South Africa Economic Update: Fiscal Policy and Redistribution in an Unequal Society, Report 92167, 2014
2 Everything you need to know about South Africa's government workers, BusinessTech, 19 February 2016

Nicoli Nattrass is a professor of economics in the Centre for Social Science Research at the University of Cape Town. She has a doctorate from Oxford and is a regular visiting professor at Yale. She has published widely in the areas of economic policy, inequality and the political-economy of AIDS. She is author of 66 journal articles and 7 books.

Jeremy Seekings is Professor of Political Studies and Sociology at the University of Cape Town. His most recent book, co-authored with Nicoli Nattrass, was *Policy, Politics and Poverty in South Africa* (2015). He is currently working primarily on the politics of policy-making across East and Southern Africa.

Setting Minimum Wages in South Africa

During his recent trip to South Africa, Thomas Piketty observed that a national minimum wage in South Africa could help reduce inequality if set at the 'right' level. What is the right level?

The ILO's Minimum Wage Fixing Convention (1970) recommends that policy makers consider the following when setting minimum wages:

a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; and
b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

> *Minimum wages are currently set in South Africa at the sectoral level, either through collective bargaining (in bargaining councils, and then 'extended' across the entire sector by the Minister of Labour) or through sectoral determinations by the Employment Conditions Commission (ECC)*

Whilst the ILO leaves it up to the national stakeholders to attribute weight to these different social and economic objectives, it has tentatively suggested various 'benchmarks'. In its 2008/09 Global Wage Report, the ILO suggested that a minimum wage of 40% of the mean (average) national wage might be a 'useful reference point' given that many countries clustered around that level, but that the final value should depend on 'country-specific factors' (2008: 47). Other ILO analysts have argued that it is better to set minimum wages in relation to the median wage (i.e. mid-point in the wage distribution) because mean wages are biased upwards by very high wages. For example, Belser and Sobeck note that a minimum wage 'is most frequently set at about 50 to 60 percent of the median wage' and suggest that these figures 'represent a useful benchmark for minimum wage setting' (2012: 122). A third suggested benchmark is to set the (annual) minimum wage between 30 and 60 percent of GDP per capita (e.g. Saget, 2008).

Minimum wages: South Africa in Comparative Perspective

How do these benchmarks compare with South Africa's existing minimum wages? Minimum wages are currently set in South Africa at the sectoral level, either through collective bargaining (in bargaining councils, and then 'extended' across the entire sector by the Minister of Labour) or through sectoral determinations by the Employment Conditions Commission (ECC). The lowest sectoral determination in 2015 is that for domestic workers in non-metro areas (R1 812 per month) and the lowest bargained wage is R989 per month, in the road freight sector (MacLeod, 2015). According to the National Treasury, the employment-weighted average minimum wage set through collective agreements outside of the public sector and the Metal and Engineering Industries was R3 500 per month and the employment-weighted average minimum wage set through sectoral determinations was R2 704 (MacLeod, 2015). The ILO reports minimum wages for many countries, typically national minimum wages or weighted averages. The ILO reported a minimum wage of R2 475 for South Africa in 2013, which in 2015 prices is very close to the National Treasury estimate for sectoral wage determinations (see Table 1).

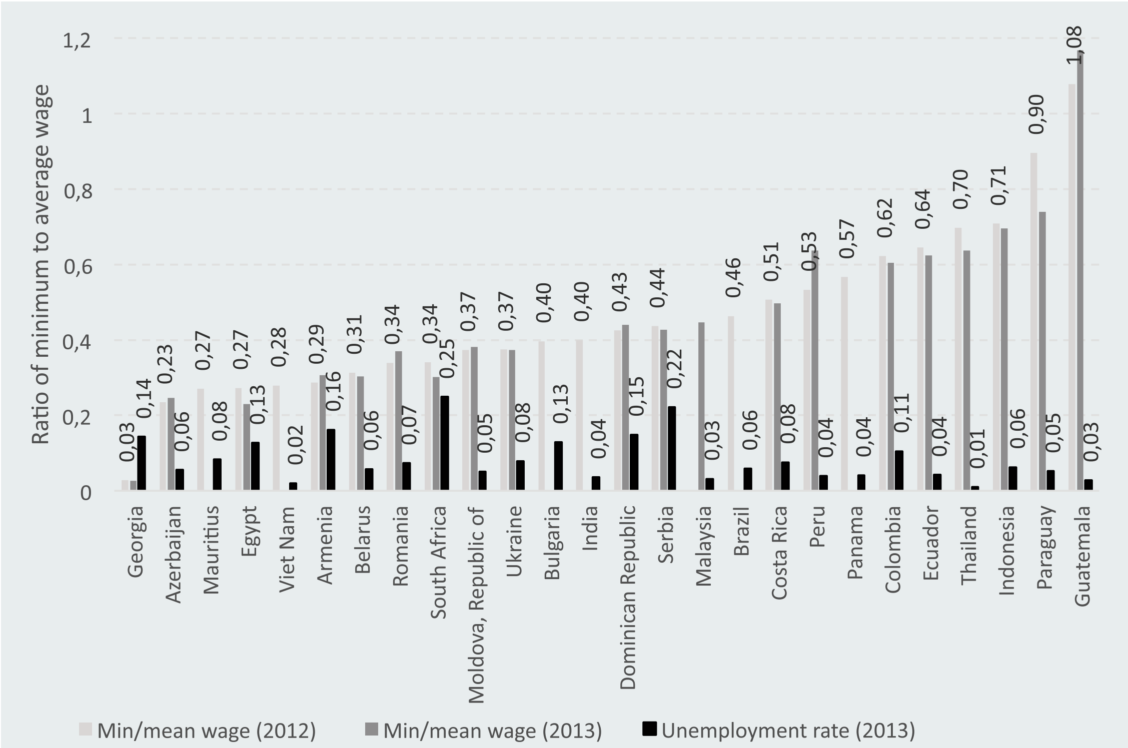
Table 1. Estimates of minimum, median and mean wages in South Africa

	Most recent data	Expressed in 2015 prices
ILO minimum wage estimate	(2013) R2 475	R2 740
National Treasury calculation of the average sector determination (weighted by employment)		R2 704
ILO mean wage estimate	(2013) R8 194	R9 077
Arden Finn estimate for the mean wage **	R8 168	R8 544
NMWRI*** estimate for mean earnings		R9 073
National Treasury estimate for median wage *		R3 145
Arden Finn estimate for the median wage **	(2014) R3 224	R3 372
NMWRI estimate for median earnings		R3 347
ILO estimate of minimum wage to mean wage	(2013) 30%	30%
National Treasury estimate of minimum wage to median wage		85%

Source: http://www.ilo.org/ilostat, MacLeod 2015, Finn (2015: 42); NMWRI, 2015.
* estimated from MacLeod, 2015; ** outliers and zero-earners removed.
*** NMWRI is the National Minimum Wage Research Initiative.

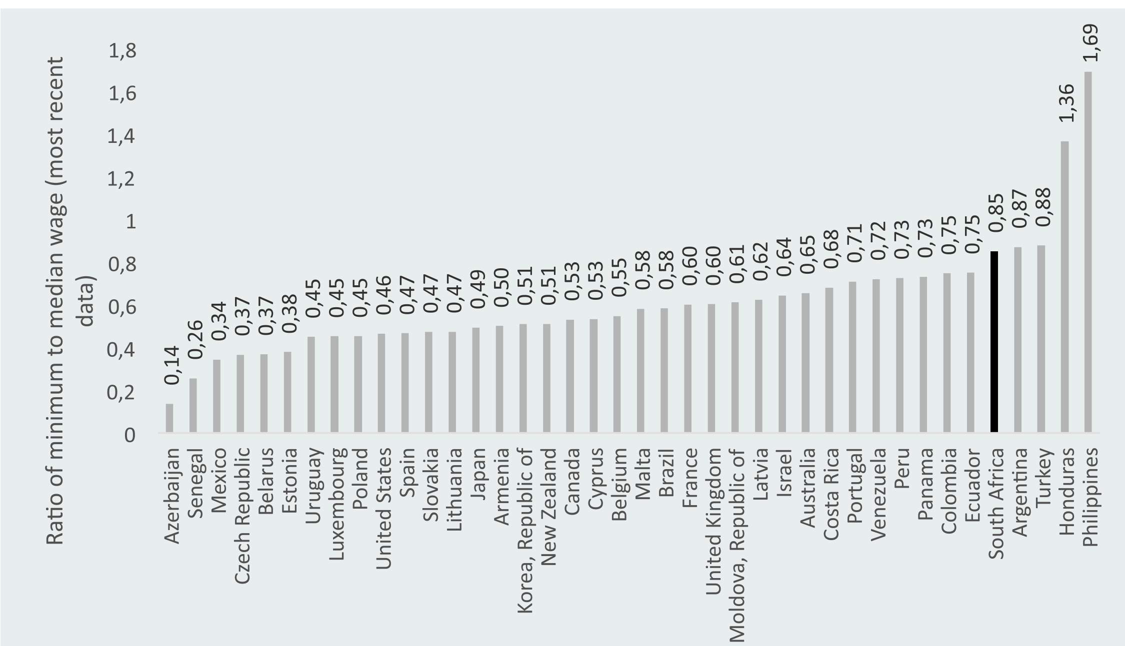
Figure 1 reports data from the ILO for middle-income countries. It shows that South Africa's ratio of minimum to mean wage is below (but not significantly so) the 40 percent benchmark. Figure 2 provides data from the ILO on the ratio of minimum to median wages for all countries for which data are available. It shows that South Africa's ratio of minimum wage to median wage is well above the 50 to 60 percent benchmark suggested by Belser and Sobeck (2012).[1]

Figure 1. Unemployment rate and the ratio of minimum wages to mean monthly wages in middle-income countries.



Source: ILOSTAT (http://www.ilo.org/ilostat)

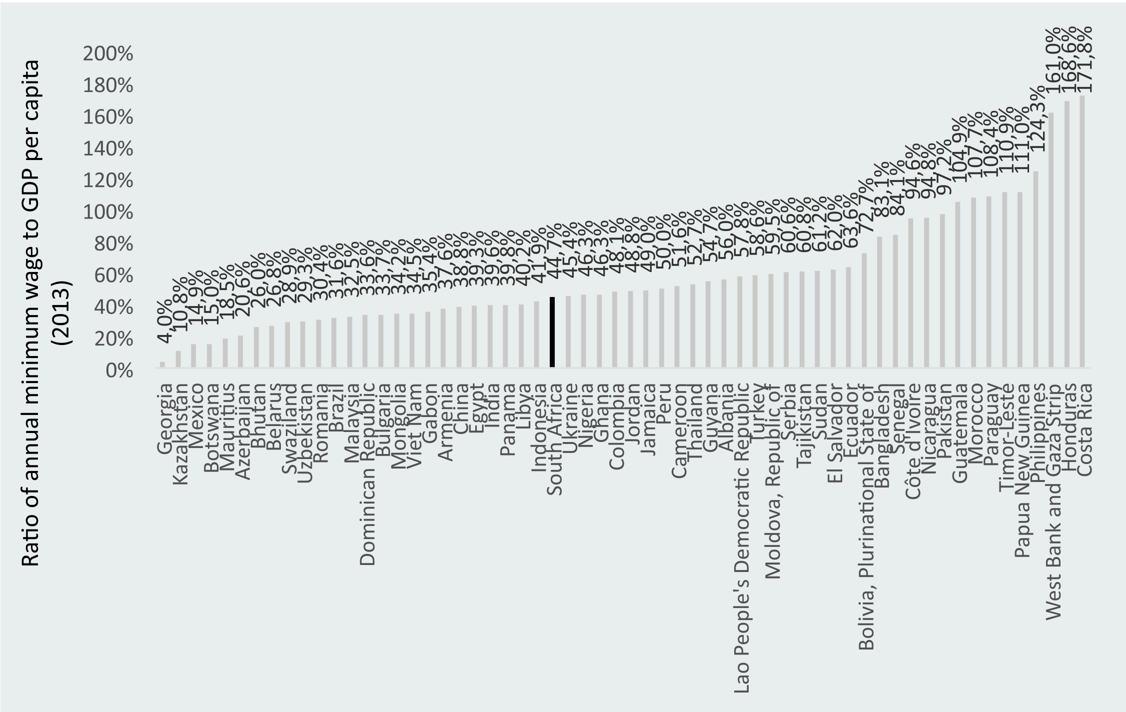
Figure 2. Ratio of minimum wages to median monthly wages (all countries)



Source: ILOSTAT (http://www.ilo.org/ilostat), Table 1.

Measuring minimum wages against the mean or median wage is not optimal in high unemployment countries because no account is taken of the unemployed. (If the unemployed were included in the wage distribution as zero earners, then both the median and mean wages would be a lot lower). Benchmarking the minimum wage against GDP per capita is a better measure in this respect. Figure 3 presents the ratio of (annual) minimum wages to GDP per capita (2013). According to Saget (2008) countries between 30 and 60 percent are within the normal range. South Africa, at 45 percent, is higher than Brazil and comfortably within Saget's indicative range.

Figure 3. Ratio of (annual) minimum wages to GDP per capita (2013) for middle income countries.

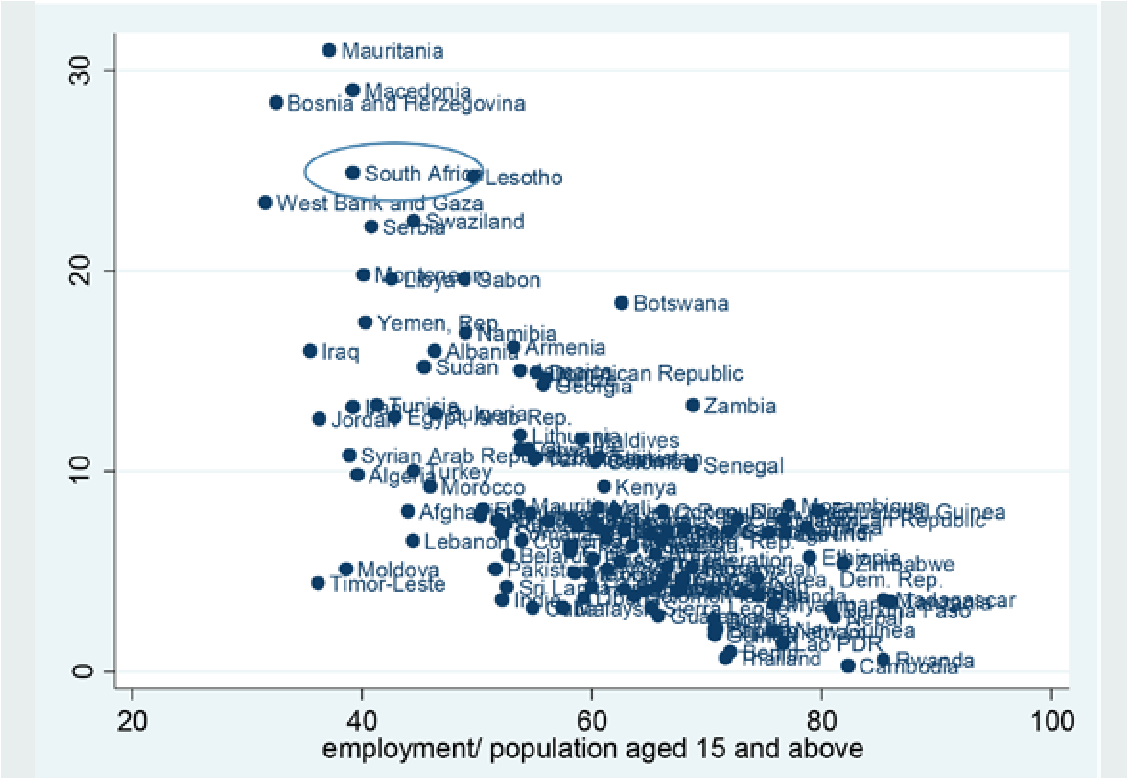


Source: ILOSTAT (http://www.ilo.org/ilostat), World Development Indicators.

Minimum wages and jobs: South Africa's challenge

The ILO suggests various benchmarks for minimum wage setting but is always quick to insist that country-specific factors be taken into account when finding an appropriate balance between social and economic considerations. South Africa's extraordinarily high rate of unemployment and weak capacity to generate new jobs out of economic growth is the key country-specific economic factor that needs considering when setting minimum wages. South Africa needs to pay special attention to what the ILO Minimum Wage Fixing Convention calls the 'desirability of attaining and maintaining a high level of employment'.

Figure 4. Unemployment and employment rates for 91 Low- and Middle-income developing countries



Source: World Development Indicators (http://data.worldbank.org/data-catalog/world-development-indicators).

Figure 4 draws on available data from the World Bank to show that South Africa is amongst a small group of mostly Southern African, post-communist and war-torn countries that have low employment rates (i.e. percentage of adults aged 15 and above who are employed) and high unemployment rates. A low employment rate implies the country is not fully utilizing its available human resources, and a high unemployment rate implies that many of the jobless are frustrated work-seekers. For the small group of countries in the top left hand corner of the figure, job creation is clearly an urgent economic and social priority.

Increasing the capacity of the economy to generate new jobs by encouraging labour-intensive sectors to expand is thus crucial, and would have significant economic and social benefits.

Countries with a relatively high employment elasticity of growth (i.e. strong capacity to generate jobs out of growth) can potentially grow themselves out of the corner. But this is not true of South Africa. Not only does South Africa have a below-mean employment rate and an above-mean unemployment rate, it also has a lower than average employment elasticity of growth. Increasing the capacity of the economy to generate new jobs by encouraging labour-intensive sectors to expand is thus crucial, and would have significant economic and social benefits. The poorest quintiles in South Africa rely predominantly on grants and remittances for their survival (e.g. Finn, 2015: 8-9). Increasing the number of jobs, even at low wages, will have a major impact on poverty. This has important implications for minimum wage setting.

International evidence on the relationship between minimum wages and employment

Higher minimum wages encourage affected firms to shed lower skilled labour in order to improve average productivity and protect profitability. In practice, firms might be able to absorb the increase without generating job losses by improving efficiency in other ways or by tolerating lower profits (though this is likely to be the case only in relatively protected sectors and with regard to relatively small increases in the minimum wage). Other firms will be unaffected (if they are already paying more than the minimum wage) and may even benefit from the increased purchasing power in the hands of workers and enjoy higher sales. Employment overall could even rise if macroeconomic conditions are propitious.

Given that the impact of minimum wages on jobs is thus highly contextual, it is unsurprising that the international empirical literature reports a wide range of findings. Most meta-analyses of the literature conclude that the effect on employment is typically mildly negative (mostly for relatively unskilled workers) or neutral, and sometimes positive (e.g. Freeman 2009, Betcherman, 2014, ILO, 2015: 59). For advocates of minimum wages, this somehow 'proves' that concerns about job losses following the imposition of a minimum wage are misplaced. But as Freeman observes:

> 'The evidence that employment responses are often negligible does not mean that demand curves do not slope downwards nor that a higher minimum wage cannot decimate employment. Rather, it suggests that governments set minimum wages with due consideration to the risk that minima can cause more harm than good' (2009: 13).

Such an assessment is consistent with evidence showing that larger employment losses are associated with larger minimum wage increases (see DPRU, 2015) and that the primary losers are lower-skilled workers at and below the level that the minimum wage 'bites' (Betcherman, 2014: 8).

The primary losers are therefore young workers and women, the less skilled, and workers in small firms.

The ILO (2013) is emphatic in concluding that minimum wages have had small or no effects on employment in developed countries, but concludes that employment effects in developing countries depend on the economic context, the level of the minimum wage, enforcement, and the 'labour market peculiarities and institutions prevailing in each country' (2013: 49). A World Bank study goes further:

> 'The clear majority of developing-country studies find some adverse employment effects, but this is not always the case. … Not surprisingly, researchers tend to find that employment effects are generally more significant at the segment of the wage distribution where the minimum wage actually "bites". … A negative employment effect can extend beyond workers earning around the minimum wage, but it tends to dissipate as one moves up the wage distribution.' (Betcherman, 2014: 8)

The primary losers are therefore young workers and women, the less skilled, and workers in small firms. This study concurs with the ILO that the effects are often modest either because of non-compliance or because minima are set at low levels, anticipating employment effects. Large increases in minima have tended to have substantial negative effects on employment especially when demand for labour was weak (for example, in Colombia in the 1990s) (ibid: 10).

South African evidence on the relationship between minimum wages and employment

As in the international literature, South African studies of the impact of minimum wages on employment found mostly modest effects on employment when set at low levels. Job destruction has however, occurred when minima were raised dramatically, especially among less skilled workers in tradable sectors (i.e. those sectors exposed to international competition).

It is too early to say how many jobs were lost following the huge increase in the minimum wage in agriculture in 2013, but anecdotal evidence suggests that job destruction was again considerable even over the short-term, especially affecting women.

Workers in non-traded sectors, notably domestic work and retail, face very different wage employment elasticities than those in traded sectors. Hertz (2005) found that the introduction of a minimum wage (in 2002) caused a drop in hours worked but that the increase in pay more than compensated domestic workers and their wage income increased. Subsequent estimates found no impact on hours (Dinkelman and Ranchod, 2012) and a negligible negative impact (Bhorat et al, 2012). This suggests that the ECC (which set the minimum wage after taking into account potential job losses) broadly got the level 'right'. However, it is worth noting that there may be substantial non-compliance (reported levels of 39%) with regard to the payment of minimum wages to domestic workers, so it is likely that ineffective regulation also helped protect against job losses.

The situation for workers in traded sectors is very different - agriculture being the most notable example. Bhorat et al. (2014) show that the introduction of a minimum wage in 2002 accounted for most (200,000) of the subsequent job losses. It is too early to say how many jobs were lost following the huge increase in the minimum wage in agriculture in 2013, but anecdotal evidence suggests that job destruction was again considerable even over the short-term, especially affecting women. In the (tradable) forestry sector, Bhorat et al. (2012b) found that the sectoral determination did not lead to any observed improvement in total earnings, because higher wages were offset by a reduction in working hours. Non-compliance (53%) was also high in this sector, likely providing some cushioning against job losses.

The clothing sector is also a traded sector, and since the creation of a national bargaining council in 2003, minimum wages have been set nationally through collective agreements. Employers and workers have kept real wage increases modest except in low-wage non-metro areas where minimum wages rose faster. This has undermined the most labour-intensive end of South Africa's last remaining labour-intensive manufacturing sector (Nattrass and Seekings, 2014). If it had not been for continued non-compliance with these wages by many low-wage firms, job losses would have been even worse.

There is thus plenty of evidence that the labour demand curve in South Africa slopes downwards, meaning that higher wages typically translate into fewer hours worked and even job losses. This raises the issue of the impact of a NMW on employment. According to the National Treasury, a NMW of R1,886 would affect 45% of unskilled workers and 43% of farm workers and 52% of domestic workers. Using a slightly different definition of full-time workers, Finn calculates that a wage of R3,000 would affect over 80% of agricultural and domestic workers (Table 2).

Table 2. Where the NMW 'bites'

	Where minimum wages would bite:
National Treasury: A wage of R1 886 would affect:	45% of primary educated labour, 43% of agricultural workers, 52% of private households
Arden Finn: A wage of R3 000 would affect	About 40% of all full-time workers, about 45% of full-time clothing workers, 82% of full-time workers in the agricultural sector, 87% of full-time workers in domestic services

Source: MacLeod (2015), Finn (2015). NB: MacLeod and Finn are using different data sources and definitions.

The large number of workers affected (by either calculation) is cause for concern. Those who gain extra money and do not lose their jobs will clearly benefit. The problem, however, is that some if not many could become unemployed. The threat of job losses will vary from sector to sector, depending (inter alia) on the level of compliance. Where non-compliance is high and tolerated (i.e. many firms ignore the NMW and the wage is not enforced by the relevant institutions) then the impact of the NMW on both incomes and employment will be lower. Even so, firms remain vulnerable to inspections and legal action, hence the business environment is risky and uncertain for these firms. Non-compliant firms may keep operating, but gradually change their technologies, not replacing unskilled workers when they leave. The result over the longer term is thus likely to be a decline in labour-intensity as firms shed their unskilled labour, mechanise, or move into less labour-intensive sectors. Some, perhaps many workers who lose their jobs might end up getting jobs elsewhere. But this depends on how the economy reacts dynamically and over the longer-term.

More recently, analysts have pointed to the longer run effect, i.e. taking into account the way that higher minimum wages affect the growth path.

Dynamic considerations: the impact on the growth path

Almost all of the empirical studies of the effect of minimum wages on employment have focussed predominantly on the short-run. More recently, analysts have pointed to the longer run effect, i.e. taking into account the way that higher minimum wages affect the growth path. Sorkin (2015) suggests that the demand for labour might be inelastic in the short-term, but elastic in the longer-term, as employers substitute capital for labour. Meer and West (2015) argue that minimum wages affect employment over time 'through changes in growth rather than an immediate drop in relative employment levels'. Using data from the US, they found that the negative employment effect peaks three or more years after the relative increase in minimum wages. Aaronson, French and Sorkin (2015) examined the mechanism through which firms substitute capital for labour. They found that existing employers in the fast-food restaurant industry are unable easily to substitute capital for labour in response to minimum wage increases, but new employers – who are typically restaurant chains – can do so. Even over the short-term, industries adjust to changed wages through the exit of more labour-intensive employers and the entry of less labour-intensive ones. In light of this research, The Economist backed away from its earlier endorsement of minimum wages, concluding that evidence of modest short-term effects might be a 'poor guide' to the long-term effects of large increases.

There is, however, a rival narrative about the dynamic impact of minimum wages claiming that higher wages could boost growth by increasing domestic consumption thereby encouraging domestic investment and creating jobs. Theoretically, such 'wage-led growth' is possible if higher domestic sales generate sufficient profits and funds for investment to compensate domestic firms (for higher wage costs) such that employment and output rise. But this is less likely in an open economy and ultimately depends on what drives profits and investment in any particular economy. Two published macroeconomic analyses of the South Africa economy (using macroeconomic simulations and data from the 1990s and 2000s respectively) concluded that wage-led growth was not feasible in South Africa, and that increasing the wage share would actually undermine investment, growth and employment and generate balance of payments problems (Gibson and Van Seventer, 2000; Oranan and Galanis, 2013). A recent simulation by the South African National Treasury comes to the same conclusion – notably that South Africa 'is profit/investment driven' rather than 'wage/consumption driven' because profits are the main source of funding for investment and wages, and because a significant amount of consumption (following from wage increases) gets spent on imports (MacLeod, 2015).

The National Treasury provides several projections for different levels of the NMW (including household poverty lines), with higher wages generating worse economic outcomes especially for the poor.

The National Treasury uses their macroeconomic model to predict the impact of four different levels for a national minimum wage (NMW). Key results are reported in Table 3. Setting the NMW at 60 percent of the median wage (i.e. R1,886, which is close the minimum wage for non-metro domestic work) is predicted to result in a 2.1% fall in employment and a 2.5% fall in output over the longer term. This would affect 45% of unskilled workers, 43% of workers in agriculture and 52% of workers in private households. The model projects that assuming full compliance, the economy would become less labour-intensive (MacLeod, 2015). The National Treasury provides several projections for different levels of the NMW (including household poverty lines), with higher wages generating worse economic outcomes especially for the poor. This is consistent with the macroeconomic simulation by Pauw and Leibbrandt (2012) which concluded that higher minimum wages hurt the poor and hence was not an appropriate instrument for addressing household poverty.

Table 3. Macroeconomic modelling results (summary) from the National Treasury

	Monthly minimum wage (2015 prices)			
% deviation from base-line (i.e. modelled situation before the introduction of a NMW)	R1 258	R1 886	R3 189	R4 303
Real GDP – short run	-0.3	-0.7	-2.1	-3.7
Real GDP – long run [Investment varies according to the rate of return, skilled labour no longer in short supply]	-1	-2.5	-7.5	-13
Employment – short run	-0.8	-2.1	-6.2	-10.1
Additional scenario: NMW does not apply to informal agricultural and domestic workers				
Real GDP – short run	-0.2	-0.6	-1.9	-3.4
Employment – short run	-0.7	-1.8	-5.1	-8.2
Additional scenario: NMW does not apply to informal workers and those earning below sectoral determinations and collective bargaining agreements				
Real GDP – short run	-0.2	-0.4	-1.5	-2.7
Employment – short run	-0.5	-1.3	-4.4	-7.8

Source: MacLeod, 2015

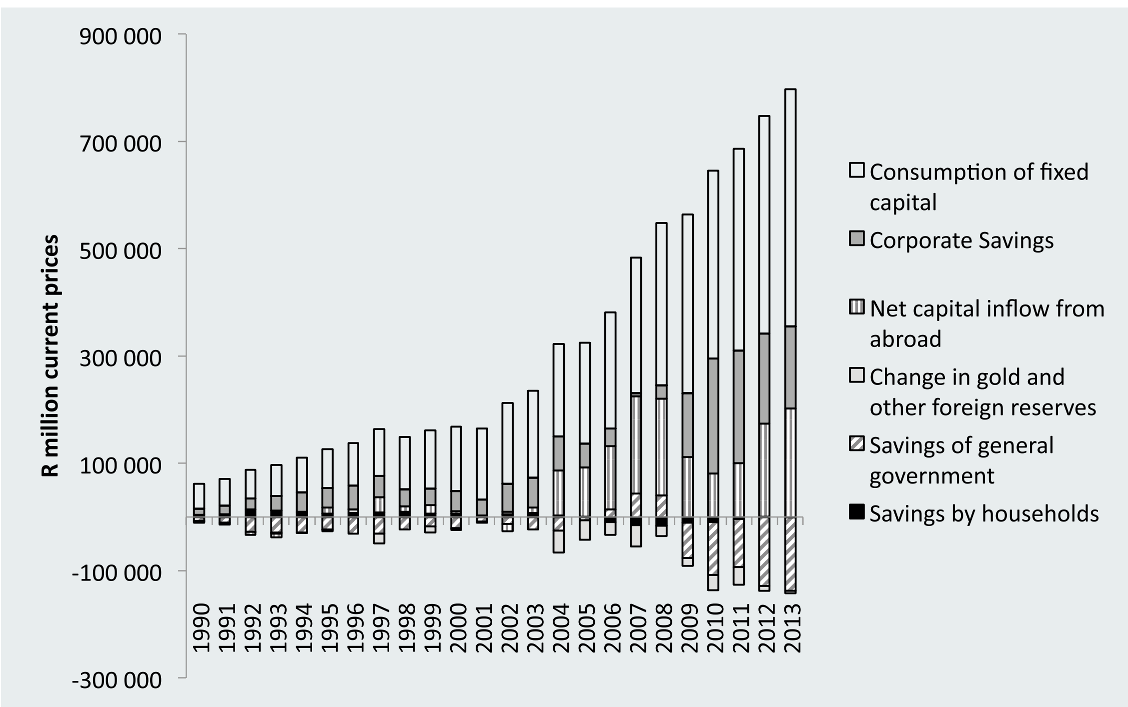
One of the reasons why minimum wages have a generally muted impact on employment in developing countries is because governments tolerate significant levels of non-compliance. South African studies suggest that there are high levels of non-compliance in South Africa: 34% of workers in retail earn below the sectoral determination, 39% in domestic work, 53% in forestry, 47% in the taxi industry, 67% in private security and 55% in agriculture (reported in MacLeod, 2015). The National Treasury provides several additional scenarios assuming that the NMW does not apply (presumably because non-compliance will be tolerated) to certain categories of worker. We report two of these scenarios in Table 3. They show that the employment and output impacts are much lower if informal, agricultural and domestic workers are exempted, and even lower if those already earning below collective bargaining agreements (as in workers in non-compliant clothing firms) are also de facto excluded. Even so, the impact on employment remains negative.

The mechanisms are unclear, but the results are probably driven by the assumption that higher minimum wages will automatically boost productivity and that investment will respond very positively to (wage-fuelled) demand.

The National Treasury's modelling work suggests that a cautious approach to NMW setting is advisable. But models are not infallible and will vary depending on assumptions and data sources. For example, the ADRS macroeconomic model reportedly predicts that higher minimum wages will promote growth and employment (Adelzedeh, 2015). The mechanisms are unclear, but the results are probably driven by the assumption that higher minimum wages will automatically boost productivity and that investment will respond very positively to (wage-fuelled) demand.

Ideally, a team of independent experts (perhaps drawn from the Reserve Bank and the major universities) should evaluate the rival economic models and test them against what we know about South African economic dynamics. In the interim, however, it is worth pointing out that the National Treasury model is more plausible given that it is consistent with other South African macroeconomic models based on data from the 1990s and 2000s (Gibson and Van Seventer, 2000; Oranan and Galanis, 2013) showing that growth in South Africa is profit-led rather than wage-led. Furthermore, the National Treasury model is consistent with evidence showing that wage increases in tradeable sectors have undermined competitiveness and hence resulted in employment losses. It is also consistent with the fact that the South African economy is not demand-constrained. As shown in Figure 5, capital accumulation in South Africa relies on corporate savings (out of profits) and on capital inflows because the government and household sectors are typically net borrowers. Put differently, South Africa's economic problem is in large part due to a shortage of savings, not demand. It is precisely because consumption continually runs ahead of production capacity that imports are sucked into the economy, and it is because South Africans are net borrowers rather than savers, that the country needs a constant inflow of foreign savings to accommodate the current account deficit and help finance capital accumulation. Wage-led growth is thus unlikely to be sustainable.

Figure 5. The financing of gross capital formation



Source: Data from the South African Reserve Bank; see www.reservebank.co.za/ .

According to data presented by Finn (2015a, 2015b) and the National Treasury, a very high proportion of low-skilled workers and workers in tradeable sectors like agriculture and clothing would be affected by a NMW in the range of R1,900 to R3,000. This implies that unless additional support (perhaps through industrial policy assistance and the like) are provided to these sectors, these last remaining labour-intensive tradeable sectors are likely to shed even more workers if a NMW is set within this band. Large numbers of domestic workers would also be affected, but as this is not a traded sector and non-compliance is rife, fewer job losses are likely.

Ultimately, it is impossible to predict precisely the employment impact of any particular level of the NMW. There is no substitute for empirical investigation on a sector by sector basis. One option is to request the ECC to make a sectoral determination to cover any workers not already covered by existing collective agreements or sectoral determinations and otherwise leave the system of sectoral minimum wages intact. If this is politically impossible, then the ECC should be tasked with conducting an evidence-based assessment of the likely employment effect of various minimum wages and then make recommendations. Expanding welfare provision for the unemployed should also be considered as an anti-poverty measure.

REFERENCES

Aaronson, D., French, E., Sorkin, I., & Michigan, U. 2015. Industry Dynamics and the Minimum Wage: A Putty-Clay Approach. Federal Reserve Bank of Chicago (May 25).

Adelzadeh, A. 2015. Potential impact of introducing National Minimum Wage in South Africa, Presentation to the NEDLAC Technical Committee, 19 October.

Belser, P. and K Sobeck. 2012. 'At what level should countries set their minimum wages?', in International Journal of Labour Research, vol.4, no.1: 105-127.

Betcherman, Gordon (2014), 'Labor market regulations: what do we know about their impacts in developing countries?', World Bank Research Observer, published online, version 'lku005'.

Bhorat, H., Kanbur, R., & Mayet, N. 2012a. The Impact of Sectoral Minimum Wage Laws on Employment, Wages and Hours of Work in South Africa. Cape Town: Development Policy Research Unit.

Bhorat, H., Kanbur, R., & Stanwix, B. 2012b. Estimating the Impact of Minimum Wages on Employment, Wages and Non-Wage Benefits: The Case of Agriculture in South Africa. Cape Town: Development Policy Research Unit.

Dinkelman, T., & Ranchold, V. 2012. Evidence on the Impact of Minimum Wage Laws in an Informal Sector: Domestic Workers in South Africa. Journal of Development Economics, 27-45.

DPRU. 2015. Exploring Minimum Wage Impacts: Global Evidence and South African Considerations. A Presentation to NEDLAC. 29 June 2015.

Finn, Arden. 2015., 'A National Minimum Wage in the Context of the South African Labour Market', National Minimum Wage Research Initiative Working Paper no.1 (Johannesburg: University of the Witwatersrand, August).

Finn, A. 2015b. A National Minimum Wage in the Context of the South African Labour Market. Powerpoint presentation, 17 August 2015.

Freeman, R. B. 2009. Labor regulations, unions, and social protection in developing countries: market distortions or efficient institutions? (No. w14789). National Bureau of Economic Research.

Gibson, Bill, and D. van Seventer. 2000., 'Real wages, employment and macroeconomic policy in a structuralist model for South Africa', Journal of African Economies 9,4: 512-546.

Hertz, T. 2005. The Effect of Minimum Wages on the Employment and Earning of South Africa's Domestic Service Workers. Kalamazoo: Upjohn Institute Working Paper No. 05-120.

ILO. 2008. Global Wage Report 2008/0. Minimum Wages and Collective Bargaining: Towards Policy Coherence. ILO Geneva. Available: http://www.ilo.org/global/research/global-reports/global-wage-report/lang--en/index.htm

ILO. 2013. World of Work Report 2013 (Geneva: International Labour Organisation).

ILO. 2015. Global Wage Report, 2014/5: Wages and Income Inequality, ILO Geneva. Available: http://www.ilo.org/global/research/global-reports/global-wage-report/lang--en/index.htm

MacLeod, Catherine. 2015. Measuring the impact of a National Minimum Wage, National Treasury, October.

Meer, J., and J. West. 2013. Effects of the minimum wage on employment dynamics (No. w19262). National Bureau of Economic Research.

NMWRI (presented by G. Isaacs). 2015. National Minimum Wage Research Initiative: Presentation of Research Programme. NEDLAC, 15 June.

Nattrass, N. and J. Seekings. 2014. Job Destruction in Newcastle: Minimum Wage Setting and Low-Wage Employment in the South African Clothing Industry', in Transformation, 84: 1-30.

Onaran, Özlem, and Giorgos Galanis. 2013. 'Is aggregate demand wage-led or profit-led? A global model', in Marc Lavoie and Engelbert Stockhammer (eds), Wage-led Growth: An Equitable Strategy for Economic Recovery (Basingstoke: Palgrave Macmillan): 71-99.

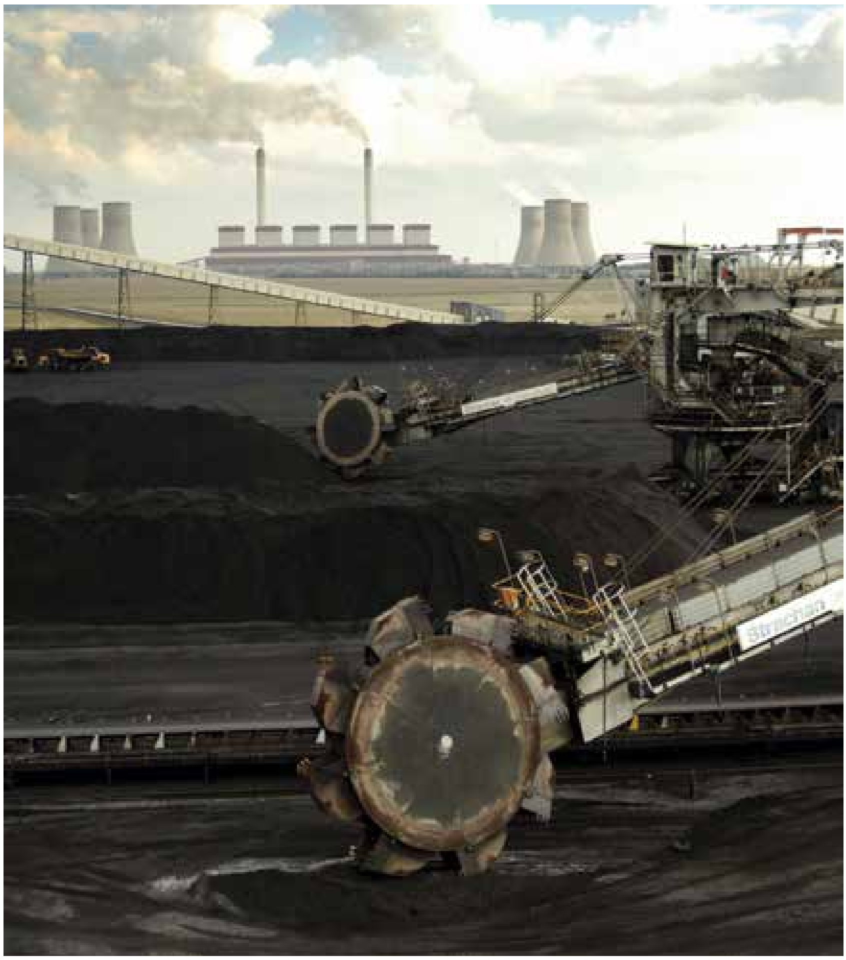
Pauw, K., and Murray Leibbrandt, 2012. 'Minimum wages and household poverty: general equilibrium macro-micro simulations for South Africa', World Development 40,4: 771-83.

Saget, Catherine. 2008. 'Fixing minimum wage levels in developing countries: Common failures and remedies', in International Labour Review, vol.147, no.1: 25-42.

Sorkin, Isaac. 2015. 'Are there long-run effects of the minimum wage?', Review of Economic Dynamics 18,2: 306-33.

Some Thoughts on the South African Mining Industry at a Time of Crisis

Peter Leon is a partner of Herbert Smith Freehills, and Co-Chair of their Africa practice. Peter is an eminent mining lawyer, and a former Head of Africa mining and energy projects practice at Webber Wentzel. Peter is a regular speaker at mining conferences, courses and Parliamentary hearings in South Africa and internationally. He is an honorary lecturer at the University of Dundee in Scotland. He holds an LLB (cum laude) from the University of Cape Town and an LLM (Hons) from the University of Cambridge.



Setting the scene

President John F. Kennedy experienced many crises during his time in office—the Bay of Pigs debacle in Cuba, the Cuban missile crisis, the beginnings of the Vietnam war, and irredentist opposition to civil rights in the South. Perhaps drawing on these experiences, he once observed: 'When written in Chinese, the word "crisis" is composed of two characters: one represents danger and the other represents opportunity.' [1]

South Africa, at the end of 2015, in the fourth year of a commodity bear market and the second of the final Zuma Administration—with a paltry 1.5 per cent growth rate—is in precisely this situation. As mineral exports constitute some 60% of the country's exports (and mining itself some 6% of GDP), there is a direct correlation between evanescent commodity prices and the trade balance of the current account, as much as the exchange rate. As good Keynesians, the government has contra-cyclically boosted expenditure, to drive demand, in the wake of declining government revenues.

South Africa's current account deficit is now -4.3% of GDP while its fiscal deficit is -3.8% of GDP, principally funded by short term capital inflows in the bond and equity markets. These could rapidly reverse in the wake of a decline in economic sentiment. This is illustrated by the fact that while the country is close to the bottom of sovereign investment grade ratings, foreigners own 37% of its domestic bonds compared with 14% six years ago.[2] A further ratings downgrade could see such investors scrambling for the exit.

This is not surprising given that the State now employs some 1.8 million employees, 28% bigger than it was 10 years ago. This 7% public sector wage settlement in 2015 (11.5% with benefits) will cost the country an extra R12.6 billion and a staggering R32.6 billion in 2017.

Government borrowing has ballooned under this Administration. Debt as a percentage of GDP has doubled from 22% at the start of the Zuma Administration to 44% at the end of 2015. It is still climbing. This is largely due to an increase in public sector wages and employment, which is now 28% bigger than it was ten years ago.

According to the Bank of International Settlements, South Africa has accumulated the most debt of the fourteen emerging market economies it monitors.[3] Interest on government debt now represents nearly 11% of South Africa's fiscal revenue, while government spending itself constitutes 1/3 of GDP, which is high by emerging market standards.

This is not surprising given that the State now employs some 1.8 million employees, 28% bigger than it was 10 years ago. This 7% public sector wage settlement in 2015 (11.5% with benefits) will cost the country an extra R12.6 billion and a staggering R32.6 billion in 2017. Social transfers to some 16 million welfare dependants (some 30% of the population), while lifting millions out of extreme poverty, now represents a sizeable chunk of government spending.

The mining industry

Where does that leave the South African mining industry? Like much of the global industry, but with some significant domestic add-ons, the industry faces an unhappy combination of ever declining commodity prices and increased cost pressures, only slightly mitigated by the 45% depreciation in the Rand Dollar exchange rate over the last three years. The Bloomberg commodity index recognises this, falling 16% in 2015 to its lowest level since 2009. According to Goldman Sachs, a case of too much supply combined with too little demand from China and others means 'lower prices for even longer'. [4]

The cost of transporting commodities, as measured by the Baltic dry index, is now at its lowest for thirty years, reflecting lack of demand from China for iron ore and coal, while prices are at their lowest in six years. Professor Carmen Reinhart of the Harvard Kennedy School observes [5] that declines in commodity prices normally endure for seven years and we are now in year four, with a peak-to-trough fall of 25 per cent and another five per cent to go. She also notes that that during these downturns, banking, currency and sovereign debt crises all tend to proliferate.

In some respects the South African mining industry is testament to this thesis. While the revenue of JSE-listed mining companies improved fractionally in 2015, net profit fell by 75%, leaving the industry 'struggling for survival.' [6] The market capitalisation of JSE-listed mining companies is less than half of what it was in June 2014 (R304 billion compared with R675 billion).

Wage increases in the mining industry have averaged 12.3% annually for the last five years, in other words double the inflation rate, without any concomitant increase in productivity (or, indeed, any agreement linking the two).

Increased operating costs and, in some cases, declining ore grades are placing huge pressure on existing operating models. Infrastructure constraints, principally energy and logistics related, combined with ever increasing wage demands, not matched by any improvement in labour productivity, add to the industry's woes. South Africa's mining export value per capita has fallen further than other mineral commodity producers.

This is illustrated by South Africa's ranking in 2015's Fraser Institute survey of the world's major mining jurisdictions, where it was ranked 66th out of 122 countries surveyed in the policy perception index. [7] Botswana ranked first in Africa with a score of 81% and 13th overall. South Africa, with a score of 44%, was the tenth ranked African country, behind Burkina Faso, Ghana, Liberia, Mali, Namibia, Tanzania, Zambia and others. An investor remarked that the country had a 'highly political unionized workforce that perpetually demands more and more in return for less and less productivity'. [8]

Wage increases in the mining industry have averaged 12.3% annually for the last five years, in other words double the inflation rate, without any concomitant increase in productivity (or, indeed, any agreement linking the two). Labour costs now represent over 50% of the industry's fixed costs. An absence of mandatory secret balloting before strike action, coupled with what are effectively 'closed shop' agreements, denying recognition to minority unions, are not conducive to labour stability. At the same time, the migrant labour system, a product of colonialism and apartheid, contributes to workers' sense of anomie and alienation.

Energy costs, monopolised by Eskom, a state-owned service provider, have increased by more than 238% between 2007-2012. Unlike in Australia and Brazil, mining companies are largely dependent on Eskom for power (although this is changing in the light of this year's energy outages) as they are on Transnet, another SOE monopoly, for rail and port facilities. Lack of cost-competitive access to essential infrastructure has a major impact on economic growth. The Chamber of Mines has estimated that if this constraint were removed, it would ensure an annual increase in GDP of between 3-5 per cent. [9]

Opportunities

All is not doom and gloom, for there is opportunity.

First, the National Development Plan ('NDP'), adopted by government and the ANC three years ago, recognised the industry's paradoxically poor performance during the 2004-2011 commodity boom. It recommended that South Africa's Mineral and Petroleum Resources Development Act ('MPRDA') should be amended to 'ensure a predictable, competitive and stable regulatory framework'. [10]

Second, the 2014-2019 Medium Term Strategic Framework, which gives effect to the NDP, requires government to streamline regulatory processes in relation to the grant of mining and water licences, as well as environmental impact assessments. Government has already given effect to this, in part, through the introduction of the One Environmental System for mining on 8 December 2014, following President Zuma's announcement in his 2014 State of the Nation address that a 300 day joined up system for all mining, water and environmental permits would be introduced. [11] Currently, this takes the form of an agreement between the three Ministries pending legislation to give effect to it.

Third, the July 2013 Framework Agreement for a Sustainable Mining Industry, signed by government, labour (with the notable exception of the Association of Mineworkers and Construction Union ('AMCU')) and business in the wake of Marikana, for the first time since the original Mining Charter was adopted in 2002, imposes obligations on all three protagonists.

It requires government to ensure 'consistency and certainty' in the application of law and law and policy, while promoting fairness and impartiality in the industry's governance.

The agreement recognises the importance of a sustainable mining sector and that living and working conditions for mineworkers are not optimal (although it is vague about the migrant labour issue). It requires government to ensure 'consistency and certainty' in the application of law and law and policy, while promoting fairness and impartiality in the industry's governance.

Fourth, the President's decision in January 2015 to refer the controversial MPRDA Amendment Bill, 2013, back to Parliament is a blow for the rule of law as much as good governance. It will be recalled that this Bill flew in the face of the NDP by increasing Ministerial discretion in relation to the domestic beneficiation of minerals, long something of a lodestar to this Administration. Bizarrely, the Bill abolished all the MPRDA's already inadequate time limits and replaced these with Ministerial regulation.

More worryingly, it abolished the open access system for the grant of rights, which operates in most mining jurisdictions, and replaced it with an opaque quasi-auction system. Finally, it established a non-WTO compliant export licensing system for 'designated' minerals under which the Minister of Mineral Resources must 'designate' minerals for domestic beneficiation in the quantities, qualities and timelines which he may specify. [12] Mineral producers are obliged to supply such minerals for domestic beneficiation either at a 'mine gate' price or an agreed price. If not so supplied, mining companies may not export them without the Minister's written consent. [13]

In January 2015, President Zuma referred the Bill back to the National Assembly for reconsideration in terms of section 79(1) of the Constitution as he had reservations about its constitutionality. Importantly, he did so on the basis, inter alia, that the Bill's beneficiation provisions, described above, 'appear to be inconsistent with South Africa's obligations under the General Agreement on Tariffs and Trade (GATT) and the [EU-SA] Trade, Development and Cooperation Agreement (TDCA) insofar as they appear to impose quantitative restrictions on exports in contravention of GATT and the TDCA and in so doing render the state vulnerable to challenges in international fora.' [14]

While this is obviously important for the rule of law, Parliament's inaction on the Bill since then either indicates that it is uncertain how to address the substance of the President's referral or that the Department of Mineral Resources ('DMR'), now under new Ministerial management, [15] is having second thoughts about it. Whatever the case, it is positive that the Bill has not progressed any further, given its contents.

Spelling this out later in the statement, the Minister observed that this impact assessment would be mandatory and promote 'greater policy coordination, highlight potential implementation risks or unintended consequences'.

Next, in May 2015, the Chamber of Mines of South Africa ('the Chamber'), responding to an adverse—and disputed—Mining Charter audit by the DMR of their members' compliance with the Charter's 26% historically disadvantaged South African ('HDSA') ownership requirements, launched proceedings against the DMR in the Pretoria High Court for a declaratory order as to the meaning of the Charter's key provisions. [16]

Although this matter will only be heard in March, what is unusual about this case is that not only is it the first time that the Chamber has collectively challenged the DMR's interpretation of the Mining Charter, but that it in effect responded to an invitation by the former Minister, Ngoako Ramatlhodi, to do so.[17]

As Ramatlhodi remarked at the time, 'sensitive issues' required 'legal remedies' rather than the imposition of regulations. [18] Importantly, the Chamber's case challenges the DMR's rejection of the 'once empowered always empowered' principle to HDSA ownership, which effectively requires mining companies to substitute any departing HDSA shareholders on an ongoing basis. It likewise challenges the retrospective application of the revised Mining Charter to transactions which took place prior to the introduction of that Charter in September 2010, and the inability of mining companies to obtain credit for the 'continuing consequences' of HDSA transactions which occurred after the promulgation of the MPRDA in May 2004.

Finally, two events took place in the final quarter of 2015 which may have a positive outcome for the industry. First, in his October medium term budget policy statement, the Minister of Finance announced some important policy decisions by government to support the economy. The most important of these for the long term—no doubt influenced by this year's visa debacle and its detrimental impact on tourism—is Cabinet's decision that with effect from 1 September 2015 'all future legislation and regulations will be subject to a socioeconomic impact to mitigate unintended consequences'. [19]

On this basis alone, the MPRDA Amendment Bill will have to be reconsidered, never mind its Presidential referral to the National Assembly. Spelling this out later in the statement, the Minister observed that this impact assessment would be mandatory and promote 'greater policy coordination, highlight potential implementation risks or unintended consequences'. [20]

Second, a five week mining Phakisa, under the auspices of the Presidency, has just been completed involving government, labour (again with the absence of

AMCU) and business. The purpose of the Phakisa was to 'identify key constraints to investment and growth of the industry as well as develop a shared vision and growth strategy for the long term' in accordance with the NDP. [21] Although it appears that the Mining Charter itself was on the table, little discussion seems to have taken place about the MPRDA Amendment Bill which, if correct, is unfortunate. One participant remarked that that he could not 'hold out too much hope in a five week laboratory coming up with all the solutions to save this delicate industry'. [22]

Conclusion

It has long been true that the absence of an overarching social impact for the mining industry imperils its future. The 2013 mine framework agreement, discussed earlier, is a start, but is rather vague about some of its key commitments and lacks effective enforcement mechanisms. The Mining Phakisa is another step in the right direction provided its outcomes are credible and effective. Government's recent decision, in effect, to impose regulatory impact assessments on any new legislation or subordinate legislation is another positive. Having said that, given the 35,000 and climbing job losses in the industry over the last two years, [23] unless there is such an overarching agreement with clear obligations on all parties and effective enforcement mechanisms, the industry's travails, in the current economic climate, are unfortunately likely to continue.

NOTE
1 John F Kennedy, Speech at the Valley Forge Country Club, Pennsylvania, 29 October 1960
2 Etienne le Roux, "Sacrifices must be made to keep SA out of the junkyard", Business Day, 11 May 2015
3 Lesiba Mothata "New data show our debt is growing at an alarming speed", Business Day, 20 October 2015
4 "Natural resources prices may fall again", Financial Times, 19 November 2015
5 Carmen Reinhart, The Commodity Roller Coaster, Project Syndicate, 19 November 2015
6 PWC, SA Mine, 2015, 3
7 Fraser Institute, Annual Survey of Mining Companies 2014, 24 February 2015, 10
8 Ibid, 54
9 Chamber of Mines of South Africa, Submission to the National Energy Regulator of South Africa, 31 January 2013, 1
10 National Development Plan 2030: Our Future – Make it Work, National Planning Commission, 15 August 2012, 146
11 See joint media release by the Departments of Mineral Resources, Environmental Affairs and Water Affairs, 9 December 2014
12 Clauses 21(b) and (c) of the Mineral and Petroleum Resources Development Amendment Bill, 2013
13 Clause 21(d) of the Mineral and Petroleum Resources Development Amendment Bill, 2013
14 Letter from the President of the Republic of South Africa to the Speaker of the National Assembly, 16 January 2015
15 Mosebenzi Joseph Zwane, a former MEC for Agriculture in the Free State, was appointed Minister of Mineral Resources on 23 September 2015
16 The 2014/2015 Mining Charter audit released by the DMR in May 2015 found that 79 per cent of mining companies had failed to achieve the 26 per cent HDSA ownership requirements of the original and revised Mining Charters. This was challenged by the Chamber.
17 "South Africa's DMR and Chamber of Mines to face off in court", Mineweb 31 March 2015.
18 Ibid.
19 National Treasury, Medium Term Budget Policy Statement 2015, 21 October 2015, 8
20 Ibid, 16
21 Statement by the Minister of Mineral Resources on mining operation Phakisa, 14 May 2015, www.sanews.gov.za/mining-operation-phakisa-start-work-august
22 "More jaw than ore - so far", Financial Mail, 3 December 2015
23 South African miners accelerate job cuts to 35 000 over two years", Financial Times, 25 May 2015

South Africa's Growth Trap – Explaining Poor Policy Choices

John M Luiz is a Professor at the Graduate School of Business at the University of Cape Town. In addition, he is Director of International Relations at the GSB. John has published in excess of 80 articles in leading journals and is the coauthor and/or editor of several books. John works as a consultant and is active in management training and executive education at several leading multinational and South African corporations and public entities. He is a Research Fellow at the Helen Suzman Foundation.

Middle income countries definitionally are countries in transition between low and high income status. As of July 2014, the World Bank's analytical classification of the world's economies based on estimates of gross national income (GNI) per capita is as follows: low-income economies are defined as those with a GNI per capita of $1,045 or less; middle-income economies are those with a GNI per capita of more than $1,045 but less than $12,746; high-income economies are those with a GNI per capita of $12,746 or more. Lower-middle-income and upper-middle-income economies are separated at a GNI per capita of $4,125. Using this classification, 79 countries qualify as high income, 102 as middle income, and 34 as low income. Within the middle income group it is equally split at 51 each within the upper and lower middle categories. South Africa falls into the middle income group.

Middle-income traps (MITs) refer to the experience of countries which achieved high economic growth rates in the past but which have become marooned in this middle-income zone that has seen their growth rates decline and them struggle to transition to high income status. Felipe et al. (2012: 45) argue that a country is in a MIT if it has been longer in the middle-income group than other countries have on average. They calculate this to be 'more than 28 years in the lower-middle-income group and more than 14 years in the upper-middle-income group. These imply that a country that becomes lower-middle-income has to attain an average growth rate of at least 4.7 percent to avoid falling into the lower-MIT and that a country that becomes upper-middle-income has to attain an average growth rate of at least 3.5 percent to avoid falling into the upper-MIT.' Using these parameters they find that 35 middle income countries in 2010 were in the MIT. By region, 13 are in Latin America, 11 are in the Middle East and North Africa, 6 are in Sub-Saharan Africa and 3 are in Asia. South Africa finds itself squarely in this category.

The large number of countries in MITs suggests that there is something structural about the nature of these countries which results in them becoming marooned in this zone. There is the now infamous statement attributed to Charles de Gaulle about Brazil when he stated that 'Brazil is the country of the future... and always will be'. This comment may well ring true for many currently much vaunted emerging markets that may find themselves in the process of 'emerging' well beyond what might be considered a reasonable time period to transition into high income adulthood. There is evidence that South Africa finds itself in this category.

Alternative explanations have been proposed as to why MITs arise. But the basic economic idea is that they find themselves struggling to compete with the low wages of low income countries and the technological aptitude of advanced countries. They are therefore squeezed from below and above and find themselves increasingly with less economic space to perform. The result is their increasing deindustrialization and a growth slowdown as countries are unable to transition to higher value activities and manoeuvre through the complex product value chains necessitated by changing patterns of development and new competitive pressures.

The Political Question

The political science literature comes at this discussion from a different angle. The focus here is less on structural changes within an economy as it develops and more on the political consequences and drivers of economic processes. Modernization theory proposes that economic progress may elicit socio-political change; and that political systems themselves have consequences for overall stability and the capacity of countries to grow economically. Given that middle income countries are moving between low and high income status, it is then of little surprise to witness the ongoing political and economic travails of this group and the fact that so many appear to find themselves marooned in this zone of transition.

As countries develop and wage structures start to rise so they need to transition to compete more effectively on the basis of quality and innovation which requires a more sophisticated skills set with higher levels of human capital.

Samuel Huntington (1970: 319) argues that 'it is not the absence of modernity but the efforts to achieve it which produce political disorder. If poor countries appear to be unstable, it is not because they are poor, but because they are trying to become rich.' He suggests that the poorest nations tend to be less prone to violence and instability than those countries just above them, but that wealthy countries tend to be the most stable. In other words, you either want to be poor and content in a low level equilibrium, or rich and content in a high level equilibrium. But trying to move between these two equilibria trigger processes of social mobilization which can result in political and economic extremism. This ties in with our MIT literature as it suggests that countries between low and high income status are subject to extraordinary pressures of social and institutional change which result in high levels of volatility – the outcome of which is uncertain.

At lower levels of development countries generally compete on the basis of low cost structures, especially related to wage costs. This stage relies heavily on low skilled workers and relatively low levels of product sophistication. As countries develop and wage structures start to rise so they need to transition to compete more effectively on the basis of quality and innovation which requires a more sophisticated skills set with higher levels of human capital. Moving up the value chain allows countries to absorb the higher cost structure by gaining a premium for greater levels of quality and, in time, a more sophisticated and innovative product portfolio. This is the challenge facing middle income countries.

The Production Question

Hidalgo and Hausmann (2009) use network theory methods to illustrate that a country's trajectory is influenced by its capacity to develop capabilities that are required to produce more sophisticated products. Thus they see development not only as a process of producing the existing product set more effectively but also acquiring new complex capabilities to develop new products with higher levels of productivity. What this literature argues is that not all products matter equally for growth. Countries which have successfully transitioned out of middle income status are those which had more diversified, sophisticated export baskets which allowed them to leap to higher levels. Felipe et al. (2012: 39) use a probabilistic measure of how close a product is to others and whether it is likely that the country can acquire the revealed comparative advantage in them through the transferability of capabilities. Out of the 779 products that they analysed, 352 are in the mid or high proximity ('good' products) and 427 are in the 'bad' product space (p. 41-42). They find that countries in MITs (especially lower income) export a substantial share of products that are both unsophisticated and not well connected to other products. South Africa is squarely in this category with 66.4% of our exports being located within the 'bad' product space. Thus their explanation of what is affecting some MICs is that they never fully industrialized the way most developed countries did (due to their lower levels of sophistication and product connectedness), and now are undergoing some early deindustrialization.

South Africa's growth under-performance is not only a recent phenomenon and even during the country's high growth era during and before apartheid, its performance relative to other comparable countries had been lacklustre and uneven.

South Africa's growth under-performance is not only a recent phenomenon and even during the country's high growth era during and before apartheid, its performance relative to other comparable countries had been lacklustre and uneven. Examining the long term structural changes in terms of contribution towards GDP reveals a definite pattern for South Africa. Manufacturing, value added as a percentage of GDP remains fairly stagnant at between 20 and 24 percent throughout the 1960s, 70s and 80s before starting its decline during the 1990s and more so during the 2000s to the point where in 2013 it contributed only 11.56%. High technology exports make up only 4.5% of South Africa's manufactured exports, compared to 10.5% for Brazil, 20.5% for Thailand, 26.2% for Korea, and 43.7% for Malaysia.

To make the leap up the value chain in terms of product sophistication requires a more effective use of inputs and an improvement in the quality of these inputs. South Africa performs poorly on both counts. On the human capital side, South Africa spends more on public education as a percentage of GDP than most other countries and yet its performance is dismal on almost any measure. Whilst the origins of this are rooted in apartheid, post-apartheid education has similarly performed with a focus on quantity rather than quality and this has implications for a country trying to escape the MIT through innovation and movements up the value chain. Compared to similar countries South Africa underperforms on various technological readiness measures. We spend less as a proportion of GDP on R&D at 0.76% - a country like South Korea which is one of the few which has successfully negotiated the treacherous transition beyond middle income status in recent decades, has an R&D spend of 4.04% and China which is acutely aware of the pressure to innovate for further success is spending almost 2% of GDP. South Africa has a low number of patent applications. Turkey with a population 50% larger than South Africa has over seven times the number of patent applications, Malaysia with a population half our size has almost double the number, whilst Korea has roughly the same population but has over 243 times the number of patents. The key dimensions which facilitate transitions from middle income to high income status are precisely the dimensions where South Africa fares poorest – namely those related to technological innovation and human capital.

Policy Failures

MITs are not inevitable but are the result of policy failures to recognize the malaise and to implement appropriate strategies to move countries through successive value chains. Why are states unable or unwilling to formulate and execute appropriate strategies to catapult countries between different stages of development? In South Africa, there is a broad understanding of what the issues are that are holding the country back. The National Planning Commission undertook a comprehensive diagnosis of the development challenges and developed an arguably reasonable plan for the way forward. But it has remained stuck in a limbo and contested within the very party that claims it as its overall framework. Ministers and departments that are meant to implement it often openly disagree with it or ignore it.

> *The lack of a strong middle class makes holding the policy centre difficult. Designing public policy thus entails trying to pacify the economically marginalized without alienating the tax base – no mean feat in any society but more so in the case of South Africa given its history and extraordinary inequality.*

In countries with high levels of inequality there are questions about the appropriate level of redistribution and this creates tensions between those who are net contributors to state revenue and those who are the recipients of public goods i.e. between those who are in favour of the status quo (the current insiders) and those who call for radical change (the outsiders). Between macroeconomic conservativism and macroeconomic populism. Economic growth brings these challenges to the fore as it highlights the winners and losers as a result of this structural change. South Africa's economic inequality shows up repeatedly as amongst the worst in the world. This is not sustainable and increasingly puts pressure on decision-makers as they struggle to mediate the tensions between a focus on production versus distribution. Business, government and labour have not been able to formulate a social contract to govern a way forward and the result is increasing policy paralysis and indecision. The lack of a strong middle class makes holding the policy centre difficult. Designing public policy thus entails trying to pacify the economically marginalized without alienating the tax base – no mean feat in any society but more so in the case of South Africa given its history and extraordinary inequality. One way to do this is by 'procuring' acquiescence through a complex web of implicit deals. The lowest deciles through social spending and cash transfers, the highest decile by guaranteeing no radical change in the underlying economic system and allowing for the continuation of the status quo. The upper-middle and middle classes end up slightly worse for wear but are known for their forbearance. For good measure, the state furthermore co-opts the vast civil service (a middle class constituency) through above inflationary pay increases and through an expansion of the sector. The Budget Review (RSA, 2015: 8) states that over the past decade, 'public-sector unit labour costs have increased by more than 80 per cent in real terms, with an average annual growth rate of more than 6 per cent above inflation. Compensation of employees has contributed in large measure to the structural fiscal deficit.' Furthermore, public sector employees have grown from 1 million in 2005 to 1,251,325 in 2013 – an increase of 25.1% (Medium Term Budget Policy Statement, 23 October 2013: 28).

This system of appeasement may result in stability but comes at the price of a low level equilibrium trap. The casualty of this is the lack of focus on expanding the productive capacity of the economy. This would require innovation and moving up the value chain which will result in a process of creative destruction and of new winners and losers. The elite rather bet on a sure thing, namely an existing share of the national income and negotiate between themselves how that is distributed, rather than the uncertain outcome which displaces the existing means of production. Labour, likewise, has an interest in the perpetuation of the status quo as long as they remain the insiders. Shifting to a new productive economy will displace some insiders even as it creates opportunities for current outsiders. This would also explain the fact that labour market reforms are left untouched. Whilst easing labour market restrictions may expand the class of the employed, it may distress the existing insiders.

Conclusion

The one 'advantage' of the current system is that the state escapes absolute capture as it appeases both ends of the spectrum. This prevents a shift to absolute policy populism – it is a form of 'bounded populism'. Unbounded populism would entail ignoring the macroeconomic constraints and see a debt and inflationary spiral, but bounded populism sacrifices innovation with an elaborate rent-granting system whilst retaining economic stability, be it at a low level.

For South Africa, unless there is a dramatic policy shift which recognizes the realities of the political and economic causes of stagnation and the appropriate investments and choices are made, we are unlikely to move beyond middle income status any time soon. Tough choices need to be made to avoid the road to nowhere or a default into a policy set of 'bounded populism'.

This is an abbreviated version of "The political economy of middle-income traps: is South Africa in a long run growth trap? The path to 'bounded populism'" originally published in South African Journal of Economics, 2016, 84(1): 3-19.

REFERENCES

FELIPE, J., ABDON, A. and KUMAR, U. (2012). Tracking the Middle-income Trap: What is it, Who Is in It, and Why?, Levy Economics Institute of Bard College, Working Paper No. 715.

HIDALGO, C.A. and HAUSMANN, R. (2009). The building blocks of economic complexity. Proceedings of the National Academy of Sciences, 106(26), 10570-10575.

HUNTINGTON, S.P. (1970). Violence and Social and Economic Modernization. In E.A. Nordlinger (ed.), Politics and Society Studies in Comparative Political Sociology. Englewood Cliffs: Prentice Hall.

RSA. (2015). Budget Review. Pretoria: National Treasury.

SOE Failure: a Symptom?

Andrew Barlow is a Researcher at the Helen Suzman Foundation. He holds an MA (Hons) in Philosophy from the University of Edinburgh.

Last year was particularly dreadful for South African state owned enterprises (SOE). Documents leaked to the press revealed that South African Airways (SAA) was insolvent. In July 2015, Barry Parsons resigned as chief strategy officer; he blamed a "dysfunctional" and "compromised board of directors" in whom he had "lost all confidence in… to lead and progress the business."[1] We are to believe that the chairperson, Dudu Myeni, has demonstrated a singular talent for driving the national carrier further and further into inescapable debt through irresponsible and possibly corrupt management.

The South African Broadcasting Corporation (SABC) was also in the spotlight for all the wrong reasons; it should bring us the news, not be the news! Hlaudi Motsoeneng, the man who for all intents and purposes runs the state broadcaster, was shown to lack a Matric qualification and – more worryingly – be willing to lie about it. Despite this being proved, and despite a report from Public Protector Thuli Madonsela, recommending his dismissal, Motsoeneng remains COO – though with a R0.9 million pay hike. Editorial independence continues to be restricted, and journalists who refuse to be censored continue to be dismissed. The board of directors has been purged of all independently minded persons, replaced by those with unquestioning loyalty to broader partisan objectives.[2]

Eskom suffered an R11.7 billion loss. The parastatal blames this on a "lower demand for electricity".[3] Little mention was made of the fact that the state owned energy company has seen more CEO's than most football teams see managers. Moreover, almost all were hired on an acting basis, which is surprising given the sheer amount of work needed to pull the parastatal out of such dire straits. We can only hope that Phil Molefe stays on long enough to steady the ship.

Petro SA, the state oil company, recorded a record loss of R14.5 billion – the biggest by a state-owned company. The CEO, Nosizwe Nokew-Macamo, and CFO, Lindiwe Mthimunye-Bakoro, were put on 'gardening leave' in anticipation of the losses, yet allowed for some inexplicable reason to remain on the board.[4]

And the South African Post Office (SAPO) was forced to halt operations in August, as it had run out of money for fuel.[5] Indeed SAPO employees have largely given up on delivering the post in recent years, focussing instead on exercising their constitutional right to strike. We wish Mark Barnes the best in cleaning out these stables, even as another strike looms at the time of writing.

Last, and certainly not least, the Passenger Rail Agency of South Africa (Prasa) bought new trains to a tune of R600 million from a Spanish company. These unfortunately turned out to sit about 30cm higher on the tracks than the national limit allows.[6] Former CEO, Lucky Montana, tried in vain to assure concerned citizens that this would not be an issue. He seemed not to realise that the national limit corresponds to the height of bridges and other infrastructure, rather than being some arbitrary number. This could have had something to do with the fact that the former chief

> *"State-owned companies are not individuals," he declared; "rather let us deal with the real problems".*

engineer, Daniel Mthimkhulu, had lied about being an engineer.[7] But, then again, maybe it was simply another case of lost in translation.

Yet the ANC continues to deny that SOE's are in crisis. Following the NEC lekgotla in August 2015, the Secretary General of the ANC, Gwede Mantashe, told reporters "when we see a problem in Eskom, we say state-owned companies are in crisis, but many are doing very well as drivers of the economy".[8] He further contended that the purpose of SOE's was not to turn a profit but rather provide a public service. He also denied that the troubles of any SOE could be attributed to any of the men or women managing them. "State-owned companies are not individuals," he declared; "rather let us deal with the real problems". [9]

Mantashe's Mantle

Unfortunately, Mantashe chose neither to expand nor expound on what any of these real problems may be. It is heartening that he at least recognises that real problems exist. But without a clear understanding of the ailment, no effective remedy can be given. In this article, I mean to take up Mantashe's mantle. What then ails our SOE's?

- Firstly, given that the ANC recognises the importance of SOE to the success of the economy – especially considered that the ANC officially pursues a developmental state agenda – why is it willing to appoint men and women to senior management or board positions who are unqualified, incompetent, or even corrupt?
- Second, when this trade off causes huge losses to the public purse, why is the ANC's response to deny the existence of a problem and protect those who have caused it?

- Third, if the political status quo remains as it is, what is the fate of SOE in South Africa?

In order to address these questions, it is necessary to consider certain sets of assumptions. At Polokwane, pursuit of the National Democratic Revolution (NDR) through non-racial African Nationalism and social democratic thinking was given a vote of no-confidence, along with its patron: Thabo Mbeki. In its place, a faction guided by Marxist-Leninist ideology and relying heavily on emotive struggle rhetoric came to the ascendency.

This meeting of ideology and psychology – the authoritarianism implicit to communism and the beliefs and values implicit to a revolutionary liberation movement – produces a specific set of assumptions which currently guide the ANC.

I propose that these assumptions work together to engender an informal political structure that operates within the framework of the modern, legal-rational state. I argue that this informal political structure is characterised by the existence of certain norms and behaviours that are used to legitimise authority, but which undermine the legal-formal institutions of a modern democracy. Through this, the perfect enabling environment for neopatrimonialism is provided. From here, the step to SOE failure is all too close. Their straddled position between the public and private spheres makes SOE's the obvious targets for corruption, rent-seeking and graft.

Indeed, many would argue that it played the pivotal role. But the role it perceives itself to have played has been increasingly misconstrued, internalised and used in recent years to warrant the assumption that it – and it alone – has the right and moral pedigree to govern the people.

To be sure, this article is concerned with South African SOE's. But empirical it is not. Rather, I reflect on the current ANC's treatment of SOE's to illustrate the basic, underlying factors influencing its thought and action. And whilst the conclusions I reach on our SOE's are narrow, the conceptual framework I use to reach them – I believe – is both broad and transferable.

The Right to Rule

The successful overthrow of the apartheid regime represented the political expression of the people's will. The ANC undoubtedly played a pivotal role. Indeed, many would argue that it played the pivotal role. But the role it perceives itself to have played has been increasingly misconstrued, internalised and used in recent years to warrant the assumption that it – and it alone – has the right and moral pedigree to govern the people.

Central to this belief is an inability or refusal to acknowledge that the dawn of democracy in 1994 heralded a new day and a new era – one in which the ANC might not always hold power or even feature prominently. Given the sacrifices made and the toil and tears that so many poured into the struggle, a naturally resistant response is understandable.

Yet the skills needed to fight for freedom are vastly different to those needed for competence and integrity in government. Mamphela Ramphele, a staunch critic of the ANC's insistence on perpetuating struggle politics, remarks that "even Britain knew better than to expect Sir Winston Churchill to lead the reconstruction after he had led the nation to victory in World War II. They voted him out and replaced him with a civilian leadership".[10] Liberation struggle and good governance are two very different beasts, and thus need two very different kinds of tamers. 'Revolution is war' Lenin quipped in his account of the October uprising in Petrograd in 1917,[11] whereas democracy is in many ways a sustained attempt at conflict management.

Unfortunately, the party's consistent and unassailable hold on a majority of the electorate has only exacerbated this sense of political entitlement. It shores up the conviction shared by certain members in the ANC's dominant factions of their right to rule – at least until Jesus returns. It assures them of their being the vanguard of justice, equality, dignity and freedom. It acts as an intoxicating form of confirmation bias, for such sweet reward is not easy to surrender.

It shores up the conviction shared by certain members in the ANC's dominant factions of their right to rule – at least until Jesus returns.

The ANC is not alone. Sadly this phenomenon has been repeatedly played out in post-colonial Africa. As Ramphele notes, "most former liberation movements have failed to make the transition to credible democratic governance machines framed by the pursuit of the ideals of social justice that inspired the very struggles for freedom they committed to."[12] This, perhaps, revolves around the second major assumption naturally intrinsic to a liberation movement.

Binary Conception of Human Affairs

The ANC assumes a totally binary conception of human affairs. This black-and-white way of thinking can be most immediately seen in the movement's intolerance of opposition; whether that be found in the form of external criticism or internal dissent. This is why the 'counter-revolutionary' appellation is used so liberally, particularly to damn party dissidents; it's cold outside the ANC, as former President Motlanthe has most recently found out.[13] It's also why civil society is considered an adversary and not a partner.

Ultimately, the values intrinsic to a democracy are fundamentally incompatible with those of a revolutionary liberation movement. Democratic thinking holds the principles of freedom of choice, freedom of expression and freedom of association to be sacrosanct. It both tolerates and appreciates the many differences in opinion and belief that are natural to the human condition. It seeks to overcome the resultant tensions with understanding, reasoned debate and compromise.

Conversely, every liberation movement must have that or them which it fights to overcome. There must always be an other – an enemy – to whom the party is defined by and consolidated against. Those who oppose it are considered obstacles to be removed. Equally, dissension in the ranks is stamped out. Total, unquestioning loyalty becomes paramount. Most significantly, this remains the case "even in the face of evidence that comrades broke the law or undermined accountability".[14]

So whilst democracy is geared toward reaching greater harmony within the polity, struggle politics predominantly works only to prevent discord and dissent within the movement. And whilst the former celebrates the human freedom and diversity that generates political disagreement, the latter tends to persecute it. If only the ANC would take to heart the scathing criticism that Rosa Luxemburg meted out to Lenin – "freedom is always the freedom of dissenters." [15]

When loyalty to the party trumps duty to the people, when differences in opinion are subjected to force and not treated with reason, when politics becomes a war, democracy

is in danger of being rendered meaningless. Instead, a parallel informal political structure is engendered that truly moves the levers of power.

So defined, our submission to the political exercise of power by a ruling party is demanded by the legal framework itself that we, by virtue of our being members of society, have agreed to live by and within.

Authority, Legitimacy and Formality

The modern, democratic state is one in which the legitimacy of the government's authority rests on rational grounds and objective law. Max Weber terms this 'legal-rational authority'. It is characterised by the existence of certain formal institutions. These take the shape of, for example: documents, such as a Constitution, and laws and regulations; events, such as caucuses, council meetings and elections; and structures, such as government ministries, legislatures and judiciaries. [16]

We owe our compliance to the policies and interdicts of the government as its authority is both derived from principles of order and justice, and legitimised by society's shared belief and tacit endorsement in the rational basis and "inherent legality of the enacted rules".[17] So defined, our submission to the political exercise of power by a ruling party is demanded by the legal framework itself that we, by virtue of our being members of society, have agreed to live by and within. Thus our social contract – concretised in the Constitution – obliges us to respect the *office*, if not the *man*.

But this equally means that those in power are subject to the same laws as the rest of us. Success in election may have elevated them to the highest rung of authority in our society, but they do not transcend law altogether. So, as far as this is true, they must direct and orientate their exercise of authority in line with, and out of respect for: the rule of law; their duty to the people; and the totality of constitutionally mandated and legislatively and judicially created rules and regulations.

The ANC sees its authority as beyond question, almost absolute – derived from a mythologised past and a Leninist conception of itself as an extension of the people and manifestation of their will.

Yet the current ANC increasingly lacks appropriate respect for the legal-formal institutions in modern South Africa. It appears, more and more, neither to recognise the impersonal, objective value of these institutions, nor to appreciate the role that they play in the proper functioning of society. Moreover, it seems not to realise – or indeed care – that the legitimacy of political authority in a modern, constitutional democracy such as ours depends on the proper functioning of these institutions.

The assumption of a right to rule naturally belies the sanctity of democracy and, by extension, its constitutive legal-formal institutions. True democracy demands the government recognise the people as its sovereign. But a party that believes itself entitled to power is prevented from even recognising the existence of such a duty. The ANC sees its authority as beyond question, almost absolute – derived from a mythologised past and a Leninist conception of itself as an extension of the people and manifestation of their will.

This reliance on historical prestige and tradition for political legitimacy is shored up by the charisma and personality of its leaders: those that Weber saw as recipients of an "extraordinary and personal gift from grace".[18] But both traditional and charismatic authorities demand legitimacy on the basis of their rulers, not rules. In other words, you only respect the office by virtue of the man or woman that occupies it.

The political structure therefore becomes personalised. Power becomes heavily centralised. With such extensive power put in the hands of so few, the political climate becomes highly volatile. The dismissal of Finance Minister Nene late last year is, perhaps, the most recent example of such volatility and the extent to the damage it can inflict. It also demonstrates the extent to the volatility created within the party itself. No one's station is safe. For self-protection and political assurance, dyadic patron-client relations naturally form.

The security and advancement of an individual's station becomes inextricably bound to the favour of the patron. The patron ensures loyalty and political backing in return for providing public services and resources to clients. But equally, the security and advancement of the patron's station becomes just as dependent on the continued support of the clients. Gradually, an interconnected, intra-reliant and highly complex patronage network establishes itself at all levels of the organisation. Each individual's self-interest becomes vested in maintaining the status quo.

Within the patronage network, vertical ties become all important whilst horizontal ties become negligible. That is, hierarchical relations between non-equals, such as those that manifest between members of a tribe or religion, supersede those between equals that cut across hierarchical lines, such as class, income bracket or age group. This undermines social cohesion and results in a jostling and often cutthroat environment of unchecked power and sycophantism.

These informal norms, and the behaviours they encourage, when taken together (personalism, patronage, and the primacy of vertical ties) lend themselves to a particular logic shared amongst members of the party: Formal institutions are a façade behind which true party objectives are pursued, and political support is a commodity to be bought and sold to the highest bidder.

A total blurring of the public and private spheres follows. To ensure that personal power and political legitimation is retained, the private demands of clients must be satisfied. The best, easiest and most cost effective way to do this is by appropriating public resources. After all, to the victor belong the spoils.

What distinguishes a neopatrimonial state is the primacy of informal institutions and the prevalence and acceptance of patrimonial norms within them.

Neopatrimonialism

Neopatrimonialism is, in essence, traditional patrimonial practices (nepotism, patronage, rent seeking etc.) operating within the contextual framework of the modern, legal-rational state. The term is wide, and encompasses many forms of rule – from multi-party democracies to dictatorships or military oligarchies. This is because, at heart, it has less to do with which legal-formal institutions are in place in a given state, and more to do with the relationship that they have with the informal that exists alongside them.

All modern states involve elements of informality at play within their political architectures. The reality that British prime ministers will generally take personal loyalty into consideration when exercising their discretionary power to choose who sits in their cabinet is one example. The reality that a Democratic President of the United States will generally nominate a left-leaning Supreme Court Judge over a right-leaning one, if called on to do so, is another.

Informal institutions are a fundamental and, moreover, essential part of any human society: they are the norms, rules, customs and traditions that influence behaviour and regulate interaction between rational agents in an informal context. The modern, legal-rational state is just a society in which the majority of institutions have been formalised. Regardless of this, however, the modern state will necessarily retain some degree of institutional hybridity. What distinguishes a neopatrimonial state is the primacy of informal institutions and the prevalence and acceptance of patrimonial norms within them.

In some cases the co-existence of certain formal and informal institutions proves incompatible. An effective, constitutionally mandated and independent anti-corruption agency inherently conflicts with an informal culture of regime-sponsored rent seeking, for example. In essence, the formal and informal rules at play here are contradictory, and thus one must go. In a modern state the rent seeking practice is gradually phased out. In a neopatrimonial state the agency is disbanded and a deliberately compromised and ineffective successor agency installed.

For the most part, however, the informal cannot only coexist with the formal in a modern state; it can thrive. Formal institutions, in a state where informality reigns unfettered and supreme, present a readily available and highly effective opportunity for patrimonial practice to be legitimised. The best example of this, and the one most relevant to why SOE finds itself in such crisis, is cadre deployment.

Cadre Deployment

Cadre deployment has been an official ANC policy since its adoption in 1997 at the

Mafikeng national conference. Inspired by Leninist practice, it involves the systematic placement of ANC loyalists to formal institutions so as to transform the machinery of state and give the party control "over all centres of power". [19]

In reality however, this formal policy has become a guise for the informal customary distribution of important positions in government for patronage purposes. Indeed, party loyalty has become secondary to personal loyalty. This starts at the very top; for in this way, President Zuma shields his position from internal opposition, and those in the front line of his defence are awarded power, prestige and large government salaries. But once such a precedent is set, it naturally establishes itself as part and parcel of the way politics is done.

It is also why Mantashe insists that our SOE's are not in crisis, and that the problems that they face have nothing to do with individuals in management positions. The ideological and psychological underpinnings of the ANC simply push such a recognition, let alone admission, out of reach.

Yet not all allies wish to pursue careers in government. Perhaps out of personal expediency they shy away from the spotlight. Further, not all allies are fit for government. Perhaps their relationship to the President is one of such a deeply private nature that, again, expediency makes certain demands. Where better to turn than to the board and senior management positions of SOE's?

As owners, full discretion lies with the government as to who gets appointed where. Due to political realities, there's really only one owner, and full discretion actually lies with him. As a Leninist inspired party, business concerns are thrown to the wind and profit margins count for naught. And as a liberation movement, allies are protected and defended as far as possible – even from the law – as loyalty to leadership is all that truly matters.

This is why Myeni, despite being a former primary school teacher with neither business experience nor apparent acumen, is the current Chairperson of SAA. This is why Nosizwe Nokew-Macamo and Lindiwe Mthimunye-Bakoro, despite being in charge of Petro SA when it registered a record loss of R14.5 billion last year, continue to sit on its board. And this is why Hlaudi Motsoeneng, despite being proven to have lied about his matric qualification, remains in charge of SABC.

It is also why Mantashe insists that our SOE's are not in crisis, and that the problems that they face have nothing to do with individuals in management positions. The ideological and psychological underpinnings of the ANC simply push such a recognition, let alone admission, out of reach.

Concluding Remarks

When a government is pervaded by neopatrimonialism, it will use the legal-formal institutions afforded it by the modern democratic state to pursue patrimonial ends. Due to their straddled position between the public and private sector, the first institutions to fall victim will be SOE's. If senior management prioritise private interest over the best interests of the institution, the institution fails. This is currently widespread amongst South Africa's SOE's.

In order to prevent this, government must begin to appoint on merit. Personal or party loyalty cannot be allowed to trump ability and integrity – the stakes are simply too high, particularly when considering who, for example, is to manage the state electricity provider. Those who prove incompetent or corrupt cannot be protected. They must be removed from office and, if necessary, prosecuted.

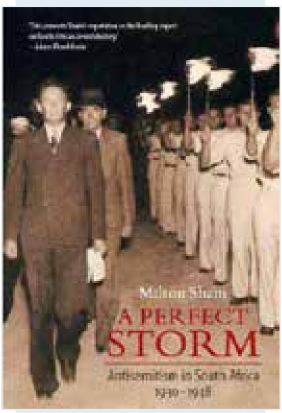
But truly enacting these changes rests on a more fundamental shift in the party's political and ideological assumptions. And this, in turn, can only be achieved by ensuring the following. First, the ANC must rid itself entirely of the Leninism that those dominant within it subscribe to. For too long has it misdirected the thinking and policies of the party. Second, the ANC must temper its struggle rhetoric with an acknowledgement that it is, first and foremost, a democratically elected government bound by the legal-rational framework of our modern state.

Relying on charisma and tradition for political legitimacy is outdated and hinders progress. Moreover, it gives patrimonialism the air it needs to breathe, thrive and multiply. The challenge is not simply to make the SOE's viable – though this will be difficult enough. Rather, the greater challenge is to ensure that those running the country recognise the importance of, and value inherent to, all the legal-formal institutions of our constitutional democracy. A ruling party that disregards democracy in favour of patrimonial practice and private enrichment disregards rationality and the rule of law. Such arrogance and stupidity threatens the foundations of the state itself.

NOTES
1 http://www.fin24.com/Companies/SAA-confirms-chief-strategy-officers-resignation-20150725
2 https://www.enca.com/south-africa/former-sabc-board-member-complains-motsoeneng-related-purge
3 http://ewn.co.za/2016/01/18/Eskom-R12-bln-revenue-lost-to-lower-electricity-demand
4 http://www.bdlive.co.za/business/energy/2015/05/28/petrosa-does-a-tsotsi-on-executives
5 http://www.politicsweb.co.za/news-and-analysis/sapo-runs-out-of-money-to-buy-fuel-for-its-vehicle
6 http://mybroadband.co.za/news/general/148355-its-confirmed-prasas-afro-4000-trains-are-too-tall-for-south-african-tracks.html
7 ibid.
8 http://www.fin24.com/Economy/Focus-on-SOE-crises-not-individuals-ANC-tells-govt-20150727
9 http://www.fin24.com/Economy/Focus-on-SOE-crises-not-individuals-ANC-tells-govt-20150727
10 http://www.leader.co.za/article.aspx?s=23&f=1&a=4024
11 https://www.marxists.org/archive/lenin/works/1905/rd/3.htm
12 http://www.leader.co.za/article.aspx?s=23&f=1&a=4024
13 http://www.iol.co.za/weekend-argus/zuma-lashes-anc-old-guard-1942201
14 http://www.leader.co.za/article.aspx?s=23&f=1&a=4024
15 Luxemburg, R. (1920). Die russische Revolution. Eine kritische Würdigung. pp. 109.
16 http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/4393.pdf
17 Morrison, K. (1995). Marx, Durkheim, Weber: Formations of Modern Social Thought. pp. 372.
18 Weber, M. (1919). Politics as a Vocation. pp.3.
19 http://www.anc.org.za/show.php?id=2536

BOOK REVIEW

Dr Michael Cardo is a Member of Parliament, and the Deputy Shadow Minister in the Presidency. He holds a BA degree (Summa Cum Laude) in English, French and History from the University of Natal, as well as MPhil and PhD degrees in History from the University of Cambridge. Dr Cardo was awarded a Visiting Research Fellowship at the Helen Suzman Foundation in 2006, during which time he wrote the biography of the former SA Liberal Party leader *"Opening Men's Eyes: Peter Brown and the Liberal Struggle for South Africa"*.



A PERFECT STORM: ANTISEMITISM IN SOUTH AFRICA, 1930-1948
Review Essay:
Milton Shain
PUBLISHER:
Jonathan Ball
ISBN-10: 1868427005
ISBN-13: 978-1868427000

Are "1652s" the new Jews? A review of Milton Shain's *A Perfect Storm: Antisemitism in South Africa, 1930-1948*

In this rigorously researched and readable account, Milton Shain documents the growth of anti-Semitism in South Africa during the 1930s and 1940s. In this period, intense anti-Jewish prejudice spread from the margins of the radical right to the centre of public life.

A number of dark clouds gathered to produce the "perfect storm". The socioeconomic atmosphere was already combustible after the Wall Street Crash of 1929 and the Great Depression that reverberated globally in its wake. A devastating drought wreaked havoc on the South African economy. It exacerbated the so-called "poor white" problem which, according to the Carnegie Commission's report in 1932, beset one in five – mainly Afrikaner – whites.

Poverty, writes Shain, was the "furnace that fired extremism". It enabled the proliferation of radical right movements that took their cue from fascists in Europe and Nazis in Germany. There was a rapid fungal spread: the South African Christian National Socialist Movement (or Greyshirts) was founded by Louis Weichardt in 1933, and soon there were Blackshirts, Brownshirts and Orangeshirts, too.

As "hapless victims of decades of structural change", alienated, unskilled and marginalised 'poor whites' were an easy target for ethnic mobilisation. They constituted a "political time bomb" waiting to explode. And the "demagogic, simplistic and vulgar message" of Jew-hatred peddled by the likes of Weichardt lit the fuse.

Drawing on centuries of anti-Semitic stereotyping, the Shirtists cast an "alien", "unassimilable" Jewry as an existential danger to Afrikaner spiritual unity and the South African polity.

At the same time, a völkisch Afrikaner Christian-Nationalism began to saturate the mainstream political climate. This was signalled by the breakaway formation of D.F. Malan's 'Purified' National Party in 1934.

With the mercury rising, Jews – as so often throughout world history – were turned into a "problem", scapegoated and victimised. The "Jewish Question" began to dominate public discourse.

Having gauged the political temperature, Malan's Nationalists latched onto a populist cause. In 1930, Malan himself – in his capacity as Minister of the Interior

– had introduced the (hastily-enacted) Quota Bill, which aimed to halt eastern European Jewish immigration to South Africa.

In 1931, Malan went out of his way to tell Die Burger – the Nationalist mouthpiece of which he was a one-time editor – how easy it was to "rouse a feeling of hate towards the Jew". After 1934, his new splinter party invested a great deal of time trying to do just that.

They drummed up and exploited discontent regarding the "Jewish Question", and used it to try and marginalise Jews from public life. Shain notes that under pressure from the radical right, the 'Purified' National Party called for "programmatic action" against Jews.

Under the influence of anti-Semitic Nazi propaganda, and drawing on anti-capitalist, anti-imperialist rhetoric, Malan's Nationalists began to make an intellectual case for what today would be called "demographic representivity".

Such calls went beyond tightened immigration controls. In the wake of the Stuttgart Affair, which saw 537 German-Jewish refugees arrive in South Africa aboard the German liner Stuttgart in 1936, anti-immigrant anger reached a fever pitch. The Aliens Act was passed in 1937 to stop the influx of German-Jewish refugees. It effectively precluded the immigration of Jews to South Africa. The Nationalists' focus now shifted to quotas on Jewish commerce, professional activity and employment.

On the campaign trail in Kroonstad ahead of the 1938 general election, Malan invoked the names of diamond magnate Ernest Oppenheimer and industrialist Isidore Schlesinger to argue for the imposition of quotas on Jewish-owned businesses.

A few days later in Parys, he praised Mussolini and Hitler, and fulminated against the "overrepresentation" of Jews in trade and the legal profession.

Under the influence of anti-Semitic Nazi propaganda, and drawing on anti-capitalist, anti-imperialist rhetoric, Malan's Nationalists began to make an intellectual case for what today would be called "demographic representivity". This was expounded most fully by the Dutch-born, German-trained, Stellenbosch academic-turned-politician, Hendrik Verwoerd.

Writing in Die Transvaler in 1937 on the "The Jewish Question from the National Party standpoint", Verwoerd claimed that Jews were "hostile to the national aspirations of Afrikanerdom" and stood "in the way of the Afrikaner's economic prosperity".

He argued that legislation should "gradually but purposefully" be introduced to ensure that each section of the white population should, "as far as practicable, enjoy a share of each of the major occupations, according to its proportion of the white population".

In this way, as Shain remarks, from the 1930s, the so-called "Jewish Question", and attempts to resolve it, paralleled – "and to some extent even presaged" – the elaboration of apartheid ideology.

During the 1930s and 1940s, Jews helped to consolidate an "all-embracing Afrikaner identity" among nationalists. Anti-Semitism was used to paper over the cracks of class divisions and antagonisms in Afrikaner society.

For all that, the party of a broad and accommodating bilingual white "South Africanism", the South African Party (subsequently United Party) was, if not swept up by, then certainly carried in part by, the prevailing current of anti-Semitism. After all, despite the fact that it was supported by Jewish voters, both the Quota Act and

Aliens Act were promulgated on its watch. Jan Hofmeyr, the great misplaced hope of South African liberals, would only countenance Jewish immigration if it was part of a wider immigration stream of the "stock of people from whom we have sprung".

Among the most virulent anti-Semites were English-speaking South Africans. One of the more odious characters in Shain's study (in a field with stiff competition) is one Kerr Wylie, a Professor of Law at the University of Cape Town. He edited a fascist propaganda-sheet, the bilingual Die Waarheid/ The Truth. Kerr, a conspiracist of note, believed that Jews were "at the bottom of all the evils" afflicting South Africa and that "organised Jewry is the leading agent of the Devil on earth".

However, as Shain acknowledges, "at no time during these years did anti-Jewish discourse in South Africa approximate the language of exclusion and frenzy heard in some European countries".

Even Patrick Duncan, the soon-to-be Governor-General, complained to Lady Selborne in 1935 about the "throng" of Jewish holidaymakers at Muizenberg. Like a Penny Sparrow avant la lettre, he wrote: "I am not anti-Semitic. I have many Jewish friends whom I like and admire. But something in me revolts against our country being peopled by the squat-bodied, furtive-eyed, loud-voiced race which crowds Muizenberg from the upcountry trading stores".

Shain writes that the "alien Jew challenged an emerging sense of 'South Africanness' among English- and Afrikaans-speaking whites". Yet there is not much evidence to suggest (not that Shain quite makes the claim) that the consolidation of an inclusive Anglo-Afrikaner identity was driven by a shared anti-Semitism.

There is no doubt that the "Jewish Question" played a critical role in South African politics during the 1930s and 1940s. However, as Shain acknowledges, "at no time during these years did anti-Jewish discourse in South Africa approximate the language of exclusion and frenzy heard in some European countries".

Indeed, Jewish South Africans flourished in many areas of public life during these two decades. Morris Kentridge was a voice of reason in Parliament, reminding South Africans that "racialism, illiberalism and economic depression have always proved fertile soil for anti-Semitism".

Curiously, with the exception of Morris Alexander, other contemporary Jewish MPs like Henry Gluckman play a marginal role in Shain's book, while others – like Max Sonnenberg and Bertha Solomon – seem not to feature at all.

South African Jews were also active in student politics. Many of the most prominent leftists in the National Union of South African Students in the 1940s were Jewish: figures like Brian Bunting and Ruvin Bennun.

And during the Second World War, Jewish volunteers like Jock Isacowitz, Jack Hodgson, Roley Arenstein and Joe Podbrey played a key role in the Springbok Legion, a soldiers' organisation whose members returned to South Africa radicalised by the fight against fascism.

It would have been interesting to learn how they engaged in, challenged and refashioned the polemical arena in which anti-Semitism seemed to thrive back home.

Yet, as early as 1943, as Shain remarks, the "Jewish Question" had "lost much of its electoral traction". Once the war was over, and the (now) 'Reunited' National Party came to power in 1948, Malan turned his back completely on the "Jewish Question".

As the economy recovered and Afrikaners became more upwardly mobile, the need for a Jewish bogeyman disappeared. The wily opportunist, Malan, switched from demonising Jews as "unassimilable" to holding them up as a model of survival for Afrikaners to emulate.

Shain's book documents in rich detail the rise of South African anti-Semitism during a critical period. As such, it makes a significant contribution to a broader body of international scholarship on anti-Semitism, but it also throws a new light on the domestic politics of the 1930s and 1940s.

The parallels with South Africa today are too obvious to ignore. Some 80 to 90 years on, we are once more a country in economic decline, mired in poverty, wracked by drought, in the grip of political turmoil, and witness to a resurgence of racial nativism.

Seized with a grandiose but ill-defined project to "decolonise" institutions, these student demagogues view "whiteness" (an incoherent notion) as an existential threat; an impurity that has to be "countered", "abolished" and even "burned".

Latter-day fascists stalk our university campuses propelled, in Tony Leon's words, by a populist fury against whites. Seized with a grandiose but ill-defined project to "decolonise" institutions, these student demagogues view "whiteness" (an incoherent notion) as an existential threat; an impurity that has to be "countered", "abolished" and even "burned". They are chauvinists who reject any kind of cultural cross-pollination as a form of "appropriation". In fact, opposition to "whiteness" now performs a similar function to anti-Semitism among Afrikaners in the 1930s and 1940s. It is being used to construct a monolithic group identity and deflect attention from socio-economic cleavages among black South Africans.

Jew-baiting has made its return. Last year, the former President of the Student Representative Council (SRC) at Wits University, Mcebo Dlamini, declared his love for Adolf Hitler. He said, "[w]hat I love about Hitler is his charisma and his capabilities to organise people. We need more leaders of such calibre. I love Adolf Hitler". A few months later, the SRC President at the Durban University of Technology, Mqondisi Duma, demanded that his Council expel from the university all Jews who would not publicly declare their loyalty to the Palestinian cause.

These student fascists are aided and abetted by an insurgent black middle-class intelligentsia, riding the bandwagon of racial populism (the Piet Meyers, Nico Diedrichses and – dare it be said – Hendrik Verwoerds of their time).

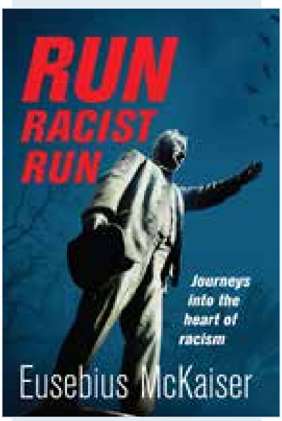
Trapped in a binary, essentialist cast of mind – where black pain and victimhood square off against white domination and privilege – their discourse has already moved from a regressive leftist fringe to the centre of politics. They view whites as aliens, or "1652s" in their jarring parlance; predatory immigrants who might, ultimately, be unassimilable into their new world order.

As Helen Suzman Foundation Research Fellow, Aubrey Matshiqi, recently observed, when countries, organisations and institutions feel under siege and are incapable of resolving their problems, then "finding 'Jews' to blame becomes a strategic option".

If Shain's book holds a lesson in store for us, it is that we should never lose sight of the real problems, never stop searching for alternative solutions, and never succumb – as the United Party did – to a lazy accommodation with the prevailing orthodoxy. That way storm clouds lie, ready to erupt.

BOOK REVIEW

Matthew Kruger is a legal researcher at the Foundation. He is an admitted attorney and has worked as a research clerk at the Constitutional Court under Chief Justice Mogoeng. He holds, from the University of KwaZulu Natal, a Bachelor of Laws, and he has completed two Master's degrees from the University of Oxford, where he was a Chevening Scholar and read for the Bachelor of Civil Law and Master of Philosophy in Law. From October 2016 he will be reading for a PhD at King's College London, under the supervision of Professor Leif Wenar, with his research focusing on the philosophical foundations of property and housing rights.



RUN RACIST RUN
by Eusebius McKaiser
Publisher Bookstorm
ISBN-10: 1928257151
ISBN-13: 978-1928257158

Sit Racist, Let's Talk A review of Eusebius McKaiser's *Run Racist Run*

The ambitions of a public intellectual

In his recent book, Run Racist Run, Eusebius McKaiser, a prominent member of the 'public intellectual Black literati',[1] sets aside his desire to write about issues relating to illness, death and the meaning of life,[2] in order to write a second book about race and racism. He wishes he were free to write about other issues, but he cannot do this 'while the country is burning'.[3] Writing about race is his 'burden';[4] it is his 'duty'.[5]

The aim of the book is to address issues that have not 'been discussed in any public discourse on race'.[6] In particular, he wants to 'to give the fullest possible exposition of the manifestations of racism in South Africa'.[7] This is necessary because without an 'overlapping consensus about what the world we all live in *looks* like', it is impossible to 'truly think through the potential solutions for the most urgent social challenges we face as a society'. [8]

Such are his motives and aims, as ambitious as they are admirable.

Philosophy, or sophistry and rhetoric?

What type of book has he written? He tells us that he wants the work to contribute to the lives of ordinary people.[9] But, how does he try to do this?

He begins with a single-line paragraph: 'I wish this was not an anthology on racism'.[10] So, he intends the 11 short chapters to be connected by the idea of racism, and he thinks that his work has a literary quality. This is reflected in his use of 'storytelling as a heuristic device'.[11] He comments on the state of the country by recounting the experiences of various people, including his own. This suggests a kind of literary-sociology, which though having an 'agenda' [12] is not self-consciously 'activist'.[13] He also aspires to be philosophical, with the heart of the book focused on conceptual analysis—that is, on what it means to be racist. Whilst he writes emotively, '[m]erely emoting won't help us to eliminate racism', so he asks his readers to hold him 'to the standards of sound argument that you find in analytic philosophy'. [14]

Taken together, we seem to have a cri de cœur that aims to be an ambitious mix of literature, sociology, intellectual activism, political theory and philosophy. [14]

This way of writing sometimes makes it difficult to come to grips with his ideas. Because it is not always clear who he is addressing—philosophers, sociologists, political theorists, the literati, or the public—the standards by which we must judge his arguments are not clear. This style of writing brings to mind the criticism that philosopher Martha Nussbaum has directed at the theorist Judith Butler:

> Butler gains prestige in the literary world by being a philosopher; many admirers associate her manner of writing with philosophical profundity. But one should ask whether it belongs to the philosophical tradition at all, rather than to the closely related but adversarial traditions of sophistry and rhetoric. Ever since Socrates distinguished philosophy from what the sophist and the rhetoricians were doing, it has been a discourse of equals who trade arguments and counter-arguments without any obscurantist sleight-of-hand.[15]

Like Butler, McKaiser has admirers. Ndumiso Ngcobo, for example, says that his 'brain is still tingling from the aftershock of the jolts it received from McKaiser's pen'.[16] The book may be worthy of this high praise, but in what way does it jolt? Is it through in-depth analysis and rigorous treatment of ideas, or is it through persuasive but shallow argument?

Philosophy, contrarily, is a joint effort to arrive at truth and at an understanding of ourselves, others and the word.

As a preliminary point, it is no defence to a charge of sophistry to identify his eclectic method. His aim is to 'give the fullest possible exposition of the manifestations of racism in South Africa' and this requires a definition of racism. The book is inspired by a 'shift' in his 'racial politics',[17] that is, by his self-perceived failure in the past to grasp certain 'features of racism'.[18] His aim, therefore, is to analyse philosophically the nature of racism for the purpose of describing the different forms in which it manifests. This is why he tells us to judge him by the standards we expect from philosophers.

So, what do we find in *Run Racist Run*? Do we find philosophy or sophistry? Though difficult to spot the differences between these methods, the foreword provides a hint. His arguments, we are told, are those of 'a World Masters Debate Champion'.[19] Though intended as a compliment, this suggests an argumentative method closer to sophistry than philosophy.

Debate is about persuasion. It is adversarial, it is a contest. There is one goal: victory. Winning is all that matters, even if it is at the expense of analytical depth, rigour and consistency. Philosophy, contrarily, is a joint effort to arrive at truth and at an understanding of ourselves, others and the word. Philosophers get heated, true, but it is understood that what matters is not victory or who is right, but *what* is right.

The hint in the foreword is confirmed by McKaiser's typical method of argument. It has three parts. First, he tells the story of someone who has experienced discrimination. Second, he introduces a concept by weaving it into the story. Third, he assumes, asserts or tries to justify with cursory analysis the correctness of the concept (often by appealing to the emotional weight of the story).

This method can be effective, as it can be persuasive. But, it is a template for how to argue rhetorically. Truth is often assumed and his ideas are rarely properly interrogated. It belongs to the school of sophistry. This is not necessarily a criticism. Effective intellectual activism can take many forms. Rather, it is to say that he does not meet the standards by which he wants to be judged. An example of how he applies this method will illustrate its un-philosophical nature. More importantly, it reveals the analytical weakness of his method and the practical implications of this weakness. As we shall see, sophistry that masquerades as philosophy can make for bad activism.

Telling a story, followed by the assertion of a moral fact

In an early chapter titled, 'Biko Lied', McKaiser tells the story of his encounter with a young white man, who enquired about his latest writing project, which happens to have been this book. After explaining its aims, the person questioned its relevance, suggesting that race is no longer an issue in South Africa. After taking this person 'to the cleaners', he abruptly asserts that he did this person 'a favour', for 'black people' do not 'have a duty to convince whites that racism is a reality'. As a white person, it is 'a bonus to have a black person explaining "race" to you'. His justification for this moral claim is that black people 'need to get on with dismantling racism's legacy'.[20] Bigots cannot be 'lazy' and ask for help; they must 'think' for and amongst themselves and 'journey' out of their bigotry 'on their own'. [21]

The story is interesting, important and probably reflective of the misguided attitudes of many white South Africans. But, it has little analytical relevance. At best, it sets the stage for analysis. This is important, but it must not be confused for analysis itself. More importantly, for my purposes, is the idea that piggy-backs on the story—that is, the claim that black people do not have a duty to engage with white people about the nature of racism and the continued relevance of race in South Africa.

He asserts the truth of this idea confidently. But, be aware, it is controversial.

The scope and the content of the duties we owe to ourselves and to others sits at the heart of questions about ethics and morality. Many people, over thousands of years, have thought and written about these issues. Measured against 'the standards of sound argument that we find in analytic philosophy', a casual assertion that this duty does not exist is unacceptable.

Moreover, as we shall see, a problem with superficial analysis of this type is highlighted by the fact that on his account of the nature of racism—which I consider later—this moral claim cannot be sustained.

A feature of liberalism that is relevant to this review, which is grounded in this metaphysical commitment, is the idea that despite our unique perspectives of the world, we can share our experiences, ideas and reasons with each other.

The shift to identity politics

Before I explain why it is unsustainable, it will be useful at this stage to develop a point alluded to above, namely, the fact that McKaiser wrote this book in part because of a shift in his racial politics. This shift is towards something resembling 'identity politics'. The shift, however, is only partial. As he notes, he is at heart an egalitarian liberal. There is a difficulty here, for identity politics and liberalism have antithetical metaphysical commitments. His commitment to both, therefore, produces tensions and contradictions in his work—such as the contradiction between the moral claim discussed in the previous section and his account of the nature or racism that I will discuss in the next section.

Before dealing with this directly, let me explain some of the more important differences between the ideologies of identity politics and liberalism.

Liberalism commits to a particular view of human beings. Despite their many differences and shades, liberals agree that individuals are free—though each of us is born into circumstances not of our choosing, our capacity to think, reflect and abstract means that we are not ultimately *subject* to our desires, passions and drives. We can choose to affirm them, according them value, or deny them value by resisting them. A feature of liberalism that is relevant to this review, which is grounded in this metaphysical commitment, is the idea that despite our unique perspectives of the world, we can *share* our experiences, ideas and reasons with each other. We do this is by interacting with each other—through word or deed—as rational beings. Much of what McKaiser says in the book is consistent with this view.

At times, it is conceptually confused, metaphysically unsound and contradictory. In what follows, therefore, I try to reconstruct his arguments in order to get at his underlying point.

Adherents of identity politics reject the basic metaphysical commitment underlying liberalism. They deny that we are free, instead subscribing to a kind of determinism—the belief that our actions are automatic consequences of processes, of forces, external to our free will. Further, unlike liberals, they believe that we are essentially unequal, with all interactions characterised by force or domination. Language, they say, does not unite us—it embodies these unequal relations. They believe that our thought-processes and thoughts are the products of what happens to us. Our values, principles and reasons are not the result of reflection, so they cannot be deliberately shared. *You either get it or you don't. It is beyond your control.* Some of what McKaiser says in the book is reflective of these ideas.

The fact that he is a liberal, but embraces some of the ideas of identity politics, means that his ideas often contradict each other. In the next two sections, I explore one of these contradictions.

The nature of racism: a liberal definition

Black people do not have a duty to explain the nature of racism and the relevance of race to white people. The journey out of bigotry must be taken alone. So asserts McKaiser. Both ideas are wrong; and neither can be reconciled with his account of the nature of racism.

His account of the nature of racism, we are told, entails a shift from an action-based conception of racism, applied in *A Bantu in My Bathroom*, to a character-based conception.[22] His exposition of this distinction is unclear. At times, it is conceptually confused, metaphysically unsound and contradictory. In what follows, therefore, I try to reconstruct his arguments in order to get at his underlying point.

Since at least Aristotle, some have argued that to understand an action, we must grasp the values, principles and reasons that inspire it. To understand *what* a person is doing, we must consider *why* they are doing it. For example, if I see you leaving your office, I can only understand your movements if I know your reasons for leaving. 'What are you doing?' will be met with 'I want to get coffee'. In philosophical terms 'why' has explanatory priority to 'what', so in any description of an action 'why' is 'what'. To put it another way, unless we know why someone moves their arms and legs or projects sounds with their vocal chords—that is, their reasons for doing so—we cannot know what they are doing. So, in the example just given, *what* the person is doing when leaving their office *is* getting coffee.

This idea has found many powerful advocates, from Thomas Aquinas to Elizabeth Anscombe and John Finnis. Whilst McKaiser obscures matters by suggesting that what we do reveals who we are deep down on the 'inside',[23] his point is just this Aristotelian one. On this approach, to determine whether an act is racist, we cannot just describe what people do. We must examine the values, principles and reasons that inspire the act. We must ask why they are acting in that particular way.

When their words or deeds are inspired by 'ill-will' or the 'narcissistic' idea of racial superiority, these words or deeds will be racist.[24]

There are three points to note about this definition, which I try to develop in the remainder of this section. First, it is essentially correct. Second, it is not different from his earlier definition. Third, it is a liberal definition.

Since racism is characterised in this way, the moral culpability of racists is different to those people who act for reasons that are grounded in or reliant on the idea of racial superiority, but are unaware of this fact.

This account of the nature of racism, as reconstructed, is essentially correct. It is characterised by action inspired by principles, values and reasons that have at their core the notion that some races are superior to others. Moreover, this idea must be more or less self-consciously held by a person when acting. In other words, there must be 'ill-will' or 'narcissism' on the part of the actor.

This does not mean that we cannot have values, principles or reasons that are in ways of which we are unaware reliant on some notion of racial superiority. Rather, it means that racism is characterised by a *subjective awareness of* and *commitment* to the idea that some races are better than others.[25]

Since racism is characterised in this way, the moral culpability of racists is different to those people who act for reasons that are grounded in or reliant on the idea of racial superiority, but are unaware of this fact. The latter group may be culpable for their failure to reflect upon and rid themselves of these values, principles and reasons. In some cases, this might evidence, but not necessarily prove, a general belief in the idea of racial superiority. If so, their actions will be racist. That said, whilst we must reflect on our principles, values and reasons, the culpable failure to do so is not synonymous with endorsing,[26] that is, affirming in one's action, these values, principles and reasons. Only the latter is racist.

How does this account differ from the one he previously offered, namely, that racism is characterised by 'arbitrary and irrational acts of discrimination on the basis of race'?[27] This is not clear.

His point in *Run Racist Run* is that we cannot know whether an action is racist unless we know why the person acted in the way that he did. Whilst 'why' has analytical priority over 'what', action is still central to this conception of racism, for only actions based on values, principles and reasons that are reliant on the idea of racial superiority are racist. Like his earlier account, this definition requires action for someone *to be racist.* Racism is always action-based, but action can only be understood by examining the principles, values and reasons that inspire it.[28] This definition is the same as his earlier one. It appears to be different to McKaiser only because he now has a better grasp of the nature of action.

This definition of racism is liberal. Though inspired by identity politics, it bears almost no relation to it. It is liberal for three reasons.

First, by situating 'relationality'[29] and action at the heart of the definition, he rejects the idea that one can be a racist without acting. A desire to punch someone does not make you guilty of assault. Similarly, unless thoughts are *affirmed in action* one is not racist. The idea that a moral concept like racism is essentially tied to action is a liberal one.

Second, by placing subjective awareness of one's commitment to the idea of racial superiority at the core of his definition, he embraces a key tenet of liberalism. Just as we are not morally culpable for the thoughts that burst ex nihilo into our trains of thought, but only for what we do with them, we can only be morally responsible if we act on the basis of choice—in this case, if our actions reflect our affirmation of the idea of racial superiority.

Third, because racism is tied up with ideas, it can be 'unlearned'.[30] As rational creatures, we can be reasoned with and 'taught' to think in a way that rejects the idea of racial superiority. This emphasis on reason and its capacity to combat injustice sits at the heart of liberalism.

The duty to engage with racists

I am now in a position to justify my claim that two of McKaiser's most important assertions—that black people do not have a duty to explain the nature of racism and its relevance to white people, and that the journey out of bigotry is one that bigots must make alone—are wrong.

If racism is characterised by actions inspired by particular values, principles and reasons, the only way to dismantle it is to target these beliefs. We must rid people of their commitment to or reliance on ideas of racial superiority. Essential to the fight against racism is *changing the minds* of people who hold such ideas. They can only change their minds, however, if they think about and reject these ideas—that is, if they commit to a process of thinking and moral consideration. Since thinking is just talking to your-self—explaining ideas to and arguing with your-self—dialogue is essential to dismantling racism.

Of course, white people must commit to dialogue, internally and amongst one other. But, black people will improve the quality of dialogue, in all its forms, by sharing their experiences and, where necessary and possible, by explaining the nature of racism and the continued relevance of race in South Africa.

Of course, white people must commit to dialogue, internally and amongst one other. But, black people will improve the quality of dialogue, in all its forms, by sharing their experiences and, where necessary and possible, by explaining the nature of racism and the continued relevance of race in South Africa. For individuals who do not 'get it',[31] explanation from and argument by others is essential—it is the only way to convert the racist—which means that everyone has a *duty* to talk with others.

A lonely journey: the illiberal nature of identity politics

Why does McKaiser fail to see that his own definition of racism means that the difficult project of dismantling racism will only succeed if all people—including black people—commit to interpersonal dialogue?

An explanation may be the fact that he has shifted to identity politics, but is still committed to core liberal principles. Whilst these principles force their way into his definition of racism, they are jettisoned when he asserts that black people have no duty to explain racism and the relevance of race to white people. He neglects these principles because he has begun to internalise certain principles of identity politics. Whilst liberals embrace human interaction as the source of so much that is good, identity politicians are suspicious of it. Whilst liberals see it as an essential means for promoting social and political justice, identity politicians see it as essentially coercive, so denounce it as irrelevant or as a way of entrenching injustice.

It is because McKaiser has started to internalise the notions that reasons and experience cannot be shared, that dialogue is at best irrelevant and at worst oppressive, and that racism can only successfully be fought by the oppressed and their 'allies' who just 'get it', that he does not see the necessity of comprehensive, inclusive, and ongoing dialogue to the project of dismantling racism.

But, he is wrong. Identity politics is wrong. This approach will not work. Identity politics fails to see that racism is *our* problem. It is our problem not because we have 'overlapping interests' that make 'strategic cooperation' wise.[32] We are not 'allies'. This is not a war. We are not islands unto ourselves—absolutely sovereign, essentially different, parties—moved by self-interest alone. Rather, we are equals in a common struggle. Racism is *our* problem simply because this struggle is for *our humanity*.

After all, to a true identity politician—something McKaiser is not—victory can only be assured when the racist is silenced, jailed or banished: 'Run racist run!'

The journey out of bigotry is a shared one. We cannot 'chuckle', say 'fuck it' and carry on 'snogging', allowing racists to 'stew' in their 'ignorance'.[33] Sometimes we must take time out from what we would prefer to be doing, what we should be entitled to do, and tackle the horrors of racism. As frustrating and unfair as this may be, we all have to help liberate others from their ideas of racial superiority. This is not because we should be 'generous', but because this is our duty. Not all duties are voluntary or arise in circumstances of our own making. Some arise by virtue of what it means to be a person, coupled with facts and events for which we bear no responsibility. Engaging the racist in dialogue, where necessary and possible, is such a duty.

To argue otherwise is unthinkable to a liberal. For her, freedom, dignity and equality can only be realised when we sit down and talk with the racist. *We have to change his mind*. To someone shifting to identity politics, however, it might make sense to dismiss the idea that we have a duty to argue with and persuade our fellow citizens. After all, to a true identity politician—something McKaiser is not—victory can only be assured when the racist is silenced, jailed or banished: 'Run racist run!'

Story-telling: still worth a read

Whilst public intellectuals might wish to draw on a variety of disciplines when they contemplate out loud, this comes with risks. One risk is that the work ultimately fails to be literature, philosophy, political theory, sociology, or anything at all. Instead, it becomes sophistry or rhetoric, which on its face may be persuasive and might score points in a debate, but on closer inspection is revealed to lack depth, rigour and, crucially, coherence. Unfortunately, on more than one occasion, *Run Racist Run* fails to avert this risk.

Despite this failing, many of the essays are worth reading.

His best work is found in the second half of the book, where he has put down the heavier 'philosophical tools',[34] instead focusing on stories. His story-telling is good: crisp, emotional and humorous. It is more effective than his conceptual analysis in conveying the points that he wants to make—some of which he notes are common sense rather than 'rocket science'.[35]

He explores the idea of shame, informs about the implications of 'black tax', and concludes with a strong essay about xenophobia. He makes good points about the importance, in politics and in our ordinary lives, of mixing passion with principle. His essay on Steve Hofmeyr and Max du Preez, though not without faults, observes that racism manifests in different forms.

The same can be said about his discussion of the relevance of perception and pre-judgments when evaluating individual merit. And, the essay in which he distinguishes the standard of proof required in criminal cases from that used in daily life—though diminished by jumps in logic and fragile conceptual and normative analysis—makes good points about what can reasonably be expected of us when we interact with others.

Sit racist, let's talk

It is important to understand why his stories are effective, and why he should not shy away from the use of story-telling as a political device.

This does not mean that we—I—cannot share the burdens of the struggle against racism, for its nature requires us to partner in our efforts to rid society of this evil.

The political theorist Hannah Arendt observes that 'no philosophy, no analysis, no aphorism, be it ever so profound, can compare in intensity and richness of meaning with a properly narrated story.'[36] Why is this? The telling of stories is so powerful because it *shares experiences* with the reader or the listener. Stories enable us, through the exercise of our imaginative faculties, to put ourselves in the shoes of a person who has faced discrimination, understand their point of view, and empathise with them—that is, experience their suffering as our own.

Our capacity to empathise, Edwin Cameron rightly notes, 'is not unique to black people in racist societies, or to women in gender-oppressed societies, or to lesbians and gays. It is available to everyone . . . simply because each of us is uniquely different' and have in some way been ill-treated and alienated because of something about us or because of who we are. Thus, for us to experience the world *as* others do, for personal experiences to become shared experiences, we must 'listen carefully' to what others have to say.[37]

If our experiences of ill treatment and alienation are rare or have never been acute, we may have to listen very carefully. Sometimes very, very carefully. This is why white people, especially men, have a duty to sometimes sit back and listen to the experiences of black people and women. This does not mean that we—I—cannot share the burdens of the struggle against racism, for its nature requires us to partner in our efforts to rid society of this evil.[38] Rather, it means that the position of some relative to others might make it more difficult, but never impossible, to grasp what others suffer on a daily basis.

Given the natural capacity to share our experiences and reasons with others,[39] the reality that every one of us inescapably cares about the truth,[40] and the fact that truth is reconciliation, the only way to dismantle racism in its entrenched entirety is to sit down with the racist and to *converse* with him—that is, to *live and transform together* with him.

So, racist, don't run. Sit, let's talk.

NOTES
1 Eusebius McKaiser, Run Racist Run: Journeys into the Heart of Racism (2015) at vii.
2 Ibid 2 and 6.
3 Ibid at 15.
4 Ibid at vii.

5 Ibid 11.
6 Ibid at 18.
7 Ibid at 12.
8 Ibid at 11-2.
9 Ibid 11.
10 Ibid at 1.
11 Ibid 12.
12 Ibid at 6.
13 Ibid at 10.
14 Ibid at 11.
15 'The Professor of Parody' (http://perso.uclouvain.be/mylene.botbol/Recherche/GenreBioethique/Nussbaum_NRO.htm, accessed on 6 January 2016).
16 Supra n 1: see the back-cover.
17 Ibid at 2.
18 Ibid at 65.
19 Ibid at x.
20 Ibid at 17-21.
21 Ibid at 95-109.
22 Ibid at 2.
23 Ibid at 64-69.
24 Ibid at 67-71.
25 In later essays he says that racism need not be 'intentional' (112). He does not mean that we can be racist when we don't affirm the idea of racial superiority in action. Rather, racism is not limited to 'overt' (120) or violent action. The examples he gives of unintentional racism entail subjective awareness of and commitment to the 'thought' (141), that is, the idea, of racial superiority (113).
26 Ibid at 144.
27 Ibid at 64.
28 When it comes to normative phenomena like racism, there is no such thing as 'pure action' (ibid at 67).
29 Ibid at 72-4.
30 Ibid at 68.
31 Ibid at 47.
32 Ibid at 46.
33 Ibid at 19, 32 and 104.
34 Ibid at 132.
35 Ibid at 142.
36 Hannah Arendt, Men in Dark Times (1968) 22.
37 Edwin Cameron, Justice: A Personal Account (2014) 218.
38 Cf. supra n 1 at 13.
39 Ibid at 206-7.
40 Cf. ibid at 161.

helen.suzman.foundation

promoting liberal constitutional democracy

"I stand for simple justice, equal opportunity and human rights: the indispensable elements in a democratic society – and well worth fighting for."

Helen Suzman

INVITATION TO BECOME A FRIEND OF THE FOUNDATION

We invite you to assist the Foundation in promoting liberal constitutional democracy.

Democratic South Africa faces challenging times. There is much to celebrate in South Africa but much that gives rise to concern, frustration and even anger. Each of us can make a difference to ensure the development of South Africa.

The Helen Suzman Foundation is making a difference. We protect the rights enshrined in our country's Constitution, tackle issues of governance and accountability in the public arena, disseminate informed research and provide a platform for public engagement and dialogue.

More recently, the Foundation intervened successfully in the Western Cape High Court where we challenged the constitutionality of the Hawks. We have made significant interventions into the public domain. These include:

- The selection of judges by the Judicial Service Commission
- The Protection of State Information Bill
- The proposed National Health Insurance system
- A Youth Programme to disseminate knowledge of the Constitution.
- The Traditional Affairs Bill
- The Civilian Secretariat's Green Paper on Policing
- The independence of the Hawks

The Foundation is not aligned to any political party. We engage actively with a range of people and organisations to enhance the country's emerging democracy.

The Foundation invites you to support our work and become a Friend of the Foundation.

Subscription levels (per annum) – Silver R1 000, Gold R5 000 and Platinum R10 000+

Donations are tax deductible and a receipt will be issued in terms of Section 18A of the Income Tax Act.

Our banking details are: Helen Suzman Foundation, Nedbank, Branch code: 195 805, Account Number: 1958 496006, Swift Code: NEDSZAJJ

We trust that you will respond positively to this appeal. If so, please confirm payment by advising name, email address, telephone number and postal address to Roshan Arnold (roshan@hsf.org.za).

Yours sincerely

Francis Antonie
Director

helen.suzman.foundation
promoting liberal constitutional democracy

www.hsf.org.za