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Capitalism, Caviar, and the Battle of Ideas

South Africa's private sector makes a larger contribution to the country than is usually acknowledged. Apart from investment, growth, jobs, and tax, it pours billions into corporate social investment (CSI). Some non-governmental organisations (NGOs) are hostile to business, but without it most would be sunk. So would the country. Business, however, is not paying enough attention to the threatening policy environment. Important though relief work might be, business should not neglect the policies which make it necessary in the first place. Pouring money into the results of bad policies is akin to filling potholes with caviar. It would be better — and cheaper — to change the policies that allow the potholes to develop in the first place.

The Institute of Race Relations (IRR) has been critical of the Government's National Development Plan (NDP). But the NDP got one thing right — the importance of the private sector. That is where most of its hoped-for 11 million new jobs will have to come from.

The importance of the private sector was also a key theme for the finance minister, Pravin Gordhan, when he tabled his budget earlier this year. It was responsible for generating 70% of GDP, he said. The burden of driving the economy should therefore be taken up by business. The private sector should "come to the party". "That's the debate," he said.

Indeed. That is exactly the debate we need. However, if the private sector is not partying as enthusiastically as the Government itself likes to party, there are good reasons. Among these are the uncertain and sometimes hostile policy environment.

Yet, despite this, our private sector is at the party in a big way. In the first decade after the African National Congress (ANC) came to power the Government's contribution to investment actually decreased. That of the private sector rose to nearly three quarters of the total. Private

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sector investment has since dropped, but it still accounts for two thirds. There are doubtless many reasons for the decline, but one is declining confidence of the private in the public sector. Uncertainty about electricity or property rights is not conducive to the investment of risk capital. Hence all that lazy money on corporate balance sheets.

Secondly, tax. In the last 20 years, government revenue as a proportion of GDP has gone up from 22% to almost 29%. Expenditure has increased from around 28% to about 33%, the difference leading to a rise in the budget deficit. Almost 60% of government expenditure now goes on the four main items of social protection — housing and community amenities, social grants and other welfare, health, and education. That's up from 45% twenty years ago.

Corporate income tax accounts for a fifth of all tax revenue, with another third coming from individual taxpayers — most of whom are employed in the private sector. The rest is mainly accounted for by indirect taxes, most of them paid by private individuals and corporates.

A great deal of all this money finances government employees, whose numbers have risen from 1.45 million in 1995 to 1.96 million last year. Many of these employees are probably doing — or not doing — jobs that the private sector has to pay others to do all over again. Hence all the additional private sector money going into education. Hence the 270% rise in the number of private security officers in the last 15 years. The health minister complains about expenditure on private health care. He omits to mention that the people paying for their own private health care are also paying via their taxes for public health.

Thirdly, there's the cost of corporate social investment itself. According to a recent Trialogue study, it was R7.8 billion last year. Finally, there's the cost of black economic empowerment (BEE) deals — R600 billion at least.

All of this adds up to a hefty contribution to this country.

This factual data is part of the answer to the finance minister's challenge to a debate. Another part of the rejoinder is that the private sector accounts for 70% of all jobs, plus just about all of the country's exports and investment inflows. Without it we would be a basket case.

Yet the private sector seldom defends itself. The health minister recently launched a vociferous attack on the pharmaceutical industry. Scared stiff, the industry seems to have shelved plans to run a public campaign for the retention of intellectual property rights in the face

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of plans to undermine them. The health minister habitually attacks the various segments of private health care, but we seldom hear these companies putting their case as robustly as the minister puts his.

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there is usually a muted response. No doubt more and more of these companies are quietly taking her advice to ship out. The same will happen with oil companies reluctant to commit to the expense of exploration if the Government is entitled to take over the bulk of their enterprises, as contemplated in legislation recently approved.

Another ominous development is legislation on its way to the Statute Book that gives effect to a decision last year by the Constitutional Court that expropriation of private property does not amount to expropriation if it is done by the State not on its own behalf but as custodian for others. Barely noticed by our sometimes less than vigilant Press, this removes one of the obstacles to radical redistribution. Many people, including some NGOs, may applaud all this. But it strikes at the very foundation of the free enterprise system.

Continue down this path and we will have a private sector much diminished in size. New investment will fall off. The private sector will not be able to do the job the NDP wants it to do, and which Mr Gordhan challenged it to do. With less investment we will have higher unemployment and growing demands upon the private sector to step in to relieve distress. Yet there will be less money to do it with — especially after the tax increases that will probably be necessary to fund the Government’s expanding social protection and welfare programme.

So we have a government which on the one hand is committed to the NDP and higher rates of economic growth. On the other, it is busy with policies that will undermine that same plan and also the economy’s growth potential. There are huge issues at stake, but too little debate about them. Apart from hostile ministers, the South African Communist Party, the Economic Freedom Fighters, the Congress of South African Trade Unions (Cosatu), and many NGOs weigh in freely with attacks on the capitalist system, as they call it. The private sector is absent from this debate. The only people willing publicly and repeatedly to defend the system which generates the country’s wealth are one or two liberal think tanks. Without us, there would be nobody.

Yet, ironically, far more funding goes into NGOs that are hostile to the private sector than into those willing to defend it. Perhaps this is a manifestation of an attitude that if you feed the crocodile it will eat you last.

There are huge issues at stake, but too little debate about them. The private sector is also absent from this debate.

Like it or not — and NGOs sometimes do not — economic growth, along with CSI, rests on successful capitalist enterprise. That old cliché just happens to be true: it is the goose that lays

the golden egg. Or as Margaret Thatcher once said, the good Samaritan was able to help that man on the roadside only because he had money.

According to the Department of Social Development, South Africa has some 85 000 registered non-profit organisations. Around 40% are in the social services sector dealing with children, the elderly, the handicapped, and so on. The next biggest category is development and housing (20%), followed by religion, education, and health (10% each). Various associations, unions, and advocacy make up most of the rest.

The real risk to business is slow strangulation leading to diminished investment and slower economic growth.

Many of these organisations benefit from the services of volunteers, or people paid below their worth. They are manifestations of some of the best of human instincts. They help to civilise our society. Although they have no formal constitutional status, they are also part of our system of checks and balances, including watchdoggery. They have a role in defending democracy. Also, of stepping in to help where the State fails.

Without the support of the private sector, South Africa's NGO sector would be very much smaller. But the ability of that goose to keep laying the golden egg is now under threat. This is because the private sector itself is under threat. This does not mean that it faces the threat of nationalisation in the big-bang kind of way spoken about by Julius Malema and also favoured by some trade unions. The real risk is more insidious: slow strangulation leading to diminished investment and therefore slower economic growth. Although the private sector chooses to keep quiet about this rather than spell it out to the Government, the risk is now becoming reality.

The tragedy is that the South African economy has the potential to perform a great deal better — though with a very big proviso: it must be allowed to do so. With the leg-iron of apartheid legislation a thing of the past, the economy should be able to power ahead at rates of growth sufficient not merely to alleviate poverty but to end it via sufficient jobs for everyone. That entails better education and health care, and a more efficient labour market. It also necessitates a State that is more accountable — and which confines itself to its core functions and does them properly, leaving the job of creating wealth to the private sector.

The work that many of South Africa's NGOs carry out, along with the role of the private sector in funding that work, are both admirable. But CSI spending needs to add another string to its bow — support for policy work and for the battle of ideas, and in particular liberal economic ideas. The scale of South Africa's problems is such they can really be remedied only by fundamental policy shifts within a different framework of ideas.

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More spending by business on CSI projects may seem to be the answer to failing public systems, whether in education, or public health, or the criminal justice system. But very often the problems in such systems are not inadequate finance, but poor policies. In many areas our

public spending is in fact relatively high already, yet the demand very often is simply to spend more money. Fixing the poor policies may be more politically difficult, but in the end it stands to be a much better return on investment. Small amounts of private money can thus be used to get better outcomes from the expenditure of large amounts of public money.

Organisations such as the Red Cross do noble work in picking up bodies from battlefields. Tragically, such work will always be necessary. But we must not neglect the need to pursue policies that prevent wars in the first place.

Apart from being loath to come to its own defence, the private sector faces another problem: public opinion that is largely hostile to business — and has probably become more so given that bankers and other businessmen are widely blamed for the global financial crisis that began in 2008. Intellectual opinion is also generally hostile to the capitalist system, as Joseph Schumpeter predicted 72 years ago. Further, it is understandable that business does not want to be too critical of government in public. Also, many in business believe that they can influence government quietly behind the scenes. This approach generally failed under apartheid. The anti-business thrust of current policy shows that it is failing once again.

The private sector also faces another problem: public opinion that is largely hostile to business.

In any event, in a society as open as this one the debate on policy options has to be a public debate. Better policies require public support. Business may not feel able to participate freely in the necessary public debate. That is a job that liberal think tanks can do — not on behalf of business, but speaking up boldly for better policies.

Business needs to pay far more attention to ideas. In particular, it needs to pay more attention to the ideas that drive policy, and to invest in alternative policies and alternative ideas. This is vital in ensuring that the private sector is able to make a proper contribution to South Africa by unleashing its uniquely creative energy.

— **John Kane-Berman**

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