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The Future We Share: A New Approach to Transformation

William Gumede

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The Future We Share: A New Approach to Transformation

by

William Gumede

Introduction

South Africa is facing its biggest economic crisis since the end of apartheid, and perhaps bigger than the Covid-induced economic crisis the country experienced, despite glowing reports of economic green shoots by government and some business leaders.

South Africa is battling US tariffs, the impact of US and industrial-country reductions in development aid, the flooding of state-subsidised Chinese manufacturing into our domestic market, on top of a long period of low growth, de-industrialisation, state and infrastructure collapse, fuelled by outdated ideological policies, runaway corruption, ANC cadre-deployment state incompetence and the capture of state black economic empowerment (BEE) procurement, which has led to public service delivery failures.

The current model of BEE is now firmly associated in public perception with favouring ANC-connected politicians and public servants, with corruption, with state failure caused by flawed state BEE, and, recently, with the mafia-capture of state BEE as revealed at the Zondo and Madlanga Commissions.

South Africa's current model of BEE will compound the economic crisis, rather than alleviate it. The current BEE policy largely involves giving shareholding in existing white-owned companies to black political capitalists. It does not expand the economy, create new industries or new markets.

It reinforces the concentration of the economy. It has decimated the productive capacity of the economy as many mainstream businesses (a good example being the mining industry) and foreign investors do not want to make new greenfield investments and instead repatriate capital abroad. This has contributed to the continuing de-industrialisation of the economy.

It is wrongly argued by those opposing the current BEE model, but with good intentions, that the BEE policy is correct, and that it is only wrongly implemented.

The ANC and South African President Cyril Ramaphosa have doubled down on BEE, instead of seeking alternatives. The current model of BEE will be fiercely resisted by those opposed to it, meaning there is no realistic chance that BEE in its current form will ever be successfully implemented. The strong opposition to the policy means it cannot be implemented as it stands.

BEE is now being opposed by significant majorities among both white and previously disadvantaged communities. The current elite-enrichment BEE model has caused deep resentment among South Africans of all races who are excluded from BEE's elite benefits. It is also being opposed, not only by US President Donald Trump's Republican administration, but also by foreign investors, from Western countries to China.

BEE Opportunity Costs, Misallocation of Scarce Capital

The opportunity cost, the massive development benefits lost if more broad-based alternative empowerment strategies were used instead of the ANC's model of black economic empowerment (BEE), which has made a few politically connected black individuals, deal-making law and financial firms and middle-men and women who connect white firms with connected individuals, super-rich, is simply too high, given high unemployment, poverty and inequalities.

Former South African President Kgalema Motlanthe, in 2004, when he was ANC secretary-general, said that BEE in many cases was a "transfer [of wealth to a few] rather than transformation" and had failed to create "new markets [and] new drivers of domestic demand in the economy".

Opportunity cost is the value of alternative policies to the ones pursued. There are many alternatives that could generate higher returns, bigger development impact, more jobs, and less societal, political and investor opposition.

The current model of BEE is a perfect example of the misallocation of capital – whether shares for the ordinary black public, or for ANC-connected BEE oligarchs, that could have generated bigger societal development impact, by investing it in public infrastructure, world-class education, technology, SMEs or assets, such as homes for the poor.

The misallocation of capital in African and developing countries occurs when resources are not directed to their most productive uses, through outdated ideological, populist and captured policies, leading to lower overall productivity and economic growth. It prevents capital from flowing to development projects and firms that could generate higher returns, bigger development impact, and more jobs.

Successful East Asian tiger economies managed to allocate scarce capital better to generate higher development impact, greater industrialisation, growth-generating infrastructure and more employment.

The current BEE model is, in practice, largely based on the African empowerment or indigenisation models, which are based on creating political capitalists, turning liberation movement politicians into "capitalists" by giving them shares in mainstream businesses or farms, rather than supporting existing indigenous entrepreneurs, who are often not linked to liberation movements.

The failure of African-style empowerment programmes lies in handing over shares of working companies to politicians who have never run a business or even a spaza shop, or have been catapulted into the state, or have only political party experience. These African-style empowerment programmes collapse the economies of these countries, leading to failed states, such as Zimbabwe.

A better solution would have been to give scarce resources to entrepreneurs who already have proven business experience – backing already proven winners, which reduces the risk of wastage of precious resources.

Wrongly equating the current BEE policy with transformation

One of the reasons why it has been so difficult to change the current flawed model of BEE is that many of its proponents wrongly equate BEE with transformation, and regard it as the **ONLY** route to economic transformation.

Yet BEE as a policy is only **ONE** approach or tool to achieve economic transformation; it is **NOT** economic transformation.

The reality is that BEE is just one policy option available to South Africa to achieve economic transformation. The truth is, there are many policy options, other than BEE, to achieve economic transformation for previously disadvantaged communities.

This is why former ANC and South African President Thabo Mbeki is fundamentally wrong when he claimed recently that abandoning BEE risks social instability, racial rupture, and an uncontainable social explosion in South Africa.

BEE is not the only way to economic transformation; therefore, abandoning the BEE policy can by no stretch of the imagination cause social instability, racial rupture, and an uncontainable social explosion.

Not pursuing alternative policy models to pursue economic transformation will in fact risk social instability, racial rupture and an uncontainable social explosion in South Africa, because BEE has enriched a small elite group of both black and white individuals, companies and trusts; at the same time, it has fuelled runaway corruption, decimated public service delivery and diverted policy focus away from more sustainable models to achieve economic transformation.

Some ANC leaders, current BEE beneficiaries and those hoping to benefit from BEE in the future, have fiercely defended the current flawed, ANC elite-enrichment BEE model, which has enriched a small elite group of both black and white individuals, companies and trusts.

The defenders of the current flawed BEE model appear overwhelmingly, but wrongly, to believe that the current flawed BEE model is the sole route to secure economic growth, development and industrialisation. The current flawed BEE model is seen as the silver bullet solution to all of South Africa's economic problems.

The question therefore should be what other policy approaches or tools, other than the current flawed BEE model approach, can bring effective economic transformation.

And the dominant view of the defenders of the current flawed BEE model is that BEE has failed because there has not been a big enough stick to punish white companies for not implementing BEE.

The ANC-aligned defenders of the current flawed BEE model have viciously attacked anyone offering alternatives to the current flawed BEE model, using state resources, state institutions and smear campaigns.

This has meant that in public discussions, very few state institutions or individuals employed by a state institution, universities or other public institutions, or private sector organisations contracting with the state, want to be seen criticising the current flawed BEE model, lest they be viciously attacked, smeared or marginalised.

No white person in the private sector or university wants to be seen as criticising the current flawed model of BEE, because the ideologically fanatical supporters of the current one-sided model of BEE will cast them as racists or as Afrikaner right-wing cranks to be ignored. Blacks criticising the current flawed BEE model are castigated, as has been customary since 1994, as in the pay of "white monopoly capital", Western imperialist "enemies" or as just being envious of not benefiting from BEE.

The defenders of the current flawed BEE model therefore only talk and listen to like-minded people. Their discussions around BEE policy take place in an echo chamber.

And even more so, if the current flawed model of BEE is being amended by the same small group of ANC-connected people, BEE beneficiaries and ideological proponents who wrote it in the first place, or who benefited from it, while insulting, smearing and publicly attacking critics using state institutions and resources, opposition to the current flawed BEE model will also ramp up further across society.

There has to be a public inquiry into the effectiveness of the current flawed BEE model. Such a review will have to be independent of the ANC, government, the Trade and Industry Department and state entities currently involved in its implementation or previously involved in devising it. No individual who has benefited directly from it, or who was part of writing the current model rules, should be part of such an evaluation of BEE.

Some ANC leaders trying to make BEE policy part of black identity

ANC leaders have also managed partially to make the policy of BEE to reach economic transformation part of the ANC's party identity.

Many African liberation movements in government, such as the ANC, the Zimbabwe African National Union – Patriotic Front (Zanu-PF) or the Mozambique Liberation Front (Frelimo), have partially stayed in power, even if they are extraordinarily corrupt, incompetent and uncaring to their supporters, because they have successfully made many of their black supporters identify the liberation movements with their black or African identity.

This means that when these African liberation movements fail in government, their supporters continue to defend these parties, because they identify a failure of these parties as a collective black failure.

These African liberation movements in government also make their core economic policies, especially their redress policies, part of their liberation movement identities, which make these policies doctrinaire-like, almost Holy Grail-like, never to be questioned.

The ANC managed to turn BEE, for many of its black supporters, into part of their black identity.

Since the ANC has also made the current elite-enrichment BEE the only way to achieve economic transformation, many ANC leaders and members are also unable to admit failure of the current elite-enrichment BEE, because it would mean admitting the failure of economic "transformation" itself.

Once a policy is part of a group's or a community's identity, abandoning that policy for many will feel like destroying part of their identity. Attempts to compromise to find alternatives become impossible, as it appears now with the ANC's BEE policy. Critics of the policy are not seen as well-intentioned people with different ideas; they are demonised as racists and "anti-transformation", if they are white, and "puppets" of whites, if they are black.

Even "offering empirical evidence that it has failed or caused harm is met with moral outrage or cognitive dissonance, rather than rational policy adjustments". The fierce defence of the flawed elite-enrichment BEE, and the insistence by many of its supporters that it is the only policy that can deliver economic transformation, now threaten to destroy race relations and the country's social cohesion, and are paralysing policy-making to tackle South Africa's multiple economic crises.

The BEE policy is defended with ideological fundamentalism

One of the reasons why policies in developing countries fail is that core policies are adopted based on ideological purity or dogmatic reasons, or because of emotional attachment to policies, or for revenge reasons, or for reasons of patronage or corrupt capture of policies.

The UN Special Rapporteur on freedom of assembly and association, Maina Kiai, describes fundamentalist belief systems as resting on "a set of strict, inflexible beliefs that are impervious to criticism or deviation".

Many of the defenders of the current BEE model, which largely empowers ANC-connected individuals with BEE deals in the private sector, with BEE state tenders and with BEE privatisation deals, do so because they embrace it with ideological fundamentalism, because of emotional attachment to it, because they wrongly perceive it as part of black "identity", or because they personally benefit from it, or because they hope they will be next in line for BEE benefits.

Because of this, the defenders of the current flawed BEE model brook no differing views, ideas and perspectives. The defenders of the current flawed BEE model are blinded to the shifts in South Africa's political, economic and social environments, which are necessitating the wholesale repurposing of the BEE model.

The failure of the ANC as a governing party over the past 30 years has been because it has on many occasions forced through the wrong policies which had failed elsewhere, for ideological, emotional, revenge, patronage and corrupt reasons.

All successful countries, whether emerging markets or industrial nations, adopt policies mostly based on pragmatism, which judges policies based on evidence, whether they are working or whether they are effective. Pragmatism, originally associated with thinkers such as John Dewey, was adopted as a policy-making approach by the US during its industrial expansion, was adopted by Japan to fuel its post-Second World War economic miracle, and since the 1980s has been adopted by China, which fired the Chinese economic miracle.

Policy pragmatism, which lies behind the success of most developing and developed countries, including China, Japan and Germany, prioritises visible, measurable and practical results, over devising or holding onto policies based on ideology, emotions or revenge. Policies that are not working are amended or replaced.

Pragmatic policies are devised in inclusive ways that bring together the views of diverse individuals, groups and communities to provide input into policymaking. A key requirement for pragmatic policy-making is that if a policy does not work or if the circumstances or the environment changes, the policy is adapted.

The current flawed BEE model has not worked for 30 years; however, instead of changing course, the model's defenders are digging in. If South Africa persists with the current flawed BEE model, the next 30 years will also bring little broad-based transformation success, but broad-based economic value destruction.

ANC's electoral decline will change economic policy debates

South Africa's national political landscape has dramatically changed with the ANC no longer the majority party. It cannot force through the adoption of its narrow party-interest economic policies, as if it were in the country's national interest.

The ANC is now in the Government of National Unity (GNU), and it is obliged to consult on critical policies with its governing partners, even if it is opposed to doing so. In addition, individuals and groups opposing ANC party-interest policies, dressed up as if they are advancing "transformation", are increasingly taking these policies to court to test their honesty, credibility and constitutionality.

The formation of the Government of National Unity appears to have sparked an existential fear among the current beneficiaries of BEE that BEE in its entirety is likely to be cancelled, given that there are parties in the GNU opposed to BEE. Criticisms of BEE by US President Donald Trump's administration appear also to have amplified this existential fear.

Up to now, when the ANC was the majority governing party, it could force through its model of BEE, without any challenge in government, and dismiss public or other opposition party criticisms. Now the ANC has to consult with other parties that are opposed to BEE.

In the past, when the ANC was the majority party, criticisms of any ANC party-interest policy that had been turned into government policy were unlikely to change the ANC's policies, even if those were nonsensical, populist or against South Africa's national interests, unless the opponents went to court.

There are currently significant numbers of both black and white South Africans opposed to the current model of BEE. This means that efforts by the proponents of the current flawed model of BEE to bunker down and deepen it will be strongly opposed.

There is now a tipping point of opposition by significant numbers of South Africans of all colours, ethnic groups and political formations that reject the current flawed BEE model, which benefits only a small, connected political elite.

These changes in South Africa's national political landscape mean that any polarising policies in this period will have to be widely canvassed across the political, ideological, colour, ethnic and race divide, if they are to be implemented in government.

If divisive policies are pushed by those who have benefited from them, or who wrote them in the past, there will be little cross-colour, ideological, political, race and ethnic buy-in for them, which will sink such policies.

Under what conditions could empowerment policies work, and what can SA learn from these

It is critical that economic empowerment programmes have a clear end-date, and that extending these programmes beyond their end-date be based on a vigorous, unsentimental, external evaluation.

Empowerment policies may foster permanent dependencies, and lock previously disadvantaged communities in permanent dependency on these policies; they could also permanently benefit small elites only – among both previously disadvantaged and previously advantaged communities.

Empowerment policies can become a permanent feature of a country's politics. They could permanently deepen race, ethnic and colour divisions in the country. They can stoke resentment from previously advantaged communities. They can be weaponised by opportunist populist political leaders and parties to secure the vote of the previously disadvantaged, who have remained poor. They undermine social cohesion in a country, driving those feeling left out of BEE into ethnic, racial and colour laagers to try to protect their own interests.

Empowerment programmes have a better chance of being more broadly successful if countries implementing these have high levels of economic growth. The early relative success of Malaysia's indigenisation came on the back of a petroleum boom, which allowed the country to expand redistribution programmes off the back of the petroleum income surpluses.

Empowerment programmes could also be more successful if critical industries and state sectors are exempted from them. Malaysia created free trade zones to build its manufacturing sector. Foreign companies in these free trade zones were exempted from implementing empowerment programmes. The free trade zones saw a massive inflow of foreign investment, capital, technology and skills into Malaysia, which also helped lift economic growth and provided additional income for redistribution strategies.

Policies in countries which must rightly pursue redistribution strategies to undo historical injustice are particularly vulnerable to corruption, capture and mismanagement. By their nature, empowerment policies provide incentives for connected elites, politicians, public servants, trade union leaders, businessmen and women, who are likely to benefit the most from these policies, rather than the ordinary poor, previously disadvantaged citizens. They may foster, as in the case of Malaysia, "a class of rentier capitalists" who use preferential access to subsidies, licences and contracts to operate in close alliance with wealthy Chinese through "so-called Ali-Baba arrangements", according to Hart. In South Africa, the equivalent partners are previously advantaged firms.

BEE policies could become the super economic policy, superseding the formulation of other more critical industrial, development and economic growth policies. In fact, they may lead to the neglect of the development of economic policies that will industrialise, develop and grow the economy of the country more substantially.

The South African political economist Bill Freund in 2007 wrote that it may be necessary to create a black economic elite through the governing ANC, given the fact that the country has a large white "embedded" economic elite. However, Freund wrote it was "questionable" whether the new ANC economic elite "has the sense of direction in pursuit of an industrialising economic model or a broad social model" for South Africa, rather than just prioritising creating a new empowerment elite.

The ANC's new BEE economic elite does not appear to have a new nation-building model for South Africa, given the fact that elite-BEE, state failure and corruption have increased racial divisions in South Africa and have undermined nation-building and social cohesion.

Empowerment policies must be simple, transparent and not costly to implement. However, most empowerment and indigenisation policies in African and developing countries have often been non-transparent, opaque and complex, and a mix of written, formal laws and unwritten, informal practices and conventions. South African government departments, state-owned entities and agencies often have huge discretionary powers in setting BEE policies. This opens the system for abuse, corruption and patronage.

The challenge for any empowerment regime is not to redistribute from existing businesses, sectors and resources – taking from the existing economic pie – but to develop new sectors, businesses and resources, not currently in existence, through empowerment programmes.

The state has to be effective, relatively non-corrupt and professional to implement sustainable empowerment policies. The ANC has a policy of cadre deployment, whereby ANC cadres are appointed to senior positions in the state, state-owned entities, democratic oversight and public organisations. This means that the South African state is highly politicised, not professional, not neutral and not accountable to the Constitution, to professional ethos and to the public, but to the ANC as a political party.

Since the Jacob Zuma presidency, large parts of the South African state have been captured, initially by corrupt ANC patronage networks, then, as exposed by the Zondo and Madlanga Commissions of Inquiry, by criminal and mafia groups. This means that South Africa has an ineffective, unprofessional state, besieged by corruption and incompetence, with state officials having vast discretionary powers, including in overseeing the implementation of BEE policies.

At local community level, so-called "community development forums" and construction mafias have also appropriated the BEE policy to demand their own shares in new local development projects.

BEE has fostered new, parallel bureaucracies in the state to measure and enforce BEE targets; in politics where middle-men and women connect BEE partners to white-owned businesses; and in the private sector, where financial deal-makers, banks and law firms have become super-rich structuring BEE deals. Firms and consultancies measuring BEE compliance have mushroomed.

High levels of corruption in the ANC, the state and wider society have led to corrupt BEE behaviour, such as fronting, whereby companies misrepresent their BEE credentials to secure state contracts.

With BEE in many cases having become patronage-based, those pushing BEE have often prioritised ownership equity over employment, education, skills and enterprise development, because more patronage can be extracted from ownership BEE deals.

Lack of education and skills among large numbers of black South Africans is a binding constraint on their ability to actively participate in the economy. This means that any sustainable empowerment has to pivot foremost on boosting industry-relevant education, skills and artisan development. However, the ANC government has neglected these.

Rather than following the current opaque, complicated BEE rules, companies must be able to choose what type of empowerment policies will suit them best. When companies create new employment opportunities, especially employing young people, transferring skills and starting new industries, which currently do not exist, but which South Africa and the world need, they should be deemed to deliver BEE.

BEE programmes, if honestly implemented and prioritising the development of industrially relevant science, technology, engineering and mathematics (STEM), artisan and technical skills, early childhood development, the care industry, supporting South Africa's struggling manufacturing sector and creating new industries not currently present, expanding public housing and infrastructure broadly, may not be a constraint on economic growth, but could boost economic growth. Mission-critical industrial and state sectors must be exempted from BEE.

Ordinary citizens behaving as responsible democratic citizens, embracing the values of the Constitution as the only national governance system, following the rule of law, embracing multi-racialism and gender equality, and rejecting violence as a way to solve problems, is critical for broad-based empowerment. Democratic civic education is crucial to embed the values of the Constitution. Public and private empowerment strategies should therefore include democratic civic education for citizens.

Private and public sector empowerment should include supporting genuine civil society, community organisations and social enterprises, giving them BEE shareholding and procurement opportunities. An alternative approach to supporting civil society, community organisations and social enterprises would be to create a Civil Society Support Fund, which would be run by civil society, business and professionals. The private sector, public sector "transformation" funds, BEE companies and foreign companies could make "BEE" contributions to such a Civil Society Support Fund.

Malaysia is considering income-based empowerment approaches, rather than colour-, ethnic- and race-based. In the South African context, given that the majority of black South Africans are poor, an income-based empowerment approach would be immensely better, as the black poor majority would automatically be the major beneficiaries of redress programmes.

Government must govern honestly, more efficiently and in the best interests of all South Africans, not one ethnic group, colour or race, and certainly not based on party, patronage and self-enrichment interests.

Alternative BEE: A Model

South Africa must reset BEE programmes by cancelling the current version of BEE, which has only enriched a handful of people politically connected to the ANC, the so-called "political capitalists", often politicians who never started a genuine business or managed one, who often set up "companies" just to secure a state contract or resource licence and to secure BEE shareholding in the private sector.

Foreign investors, particularly those establishing new industrial sectors not present in South Africa, but critical to the domestic and global economy, must be exempted from BEE, and given options to provide alternatives to BEE, whether providing jobs for the youth, supporting manufacturing small and medium-sized enterprises or developing mass STEM and technical skills.

BEE should be cancelled in state departments, state-owned and infrastructure state institutions key to public service delivery, economic growth and infrastructure development. BEE should be cancelled in state entities which are experiencing financial and governance crises, and which need state bailouts. BEE should also be cancelled in catalytic economic growth industries in the private sector.

Rather than following complicated charters and codes, companies must decide on their own what kind of empowerment programmes are practical and suited to them. Local and foreign companies should be asked, as an alternative to BEE, to provide investments in targeted catalytic economic sectors: technology, science and mathematics education; low-income housing; critical public infrastructure; manufacturing small and medium-sized enterprises (SMEs); sport, cultural and music development; and the care industries.

Another solution is for companies, instead of BEE, to contribute to a development or wealth fund, which should be run by the private sector and not the government. If a fund is run by the current government, it will fail, as have all the other state-owned entities (SOEs), development finance institutions (DFIs) and other development funds. Such a fund would then invest in merit-based, non-party-political and non-ideology-based growth, industrialisation and infrastructure programmes.

Creating employment for youth, providing economy-relevant technical skills and supporting industrially competitive start-ups and SMEs should be seen as alternative BEE. South Africa's 60% youth unemployment is one of the biggest risks to the country's economic, political and social stability.

Strengthening non-public democratic institutions and democracy capacity-building initiatives including supporting civil society, anti-corruption activities and independent media should be an integral part of a new BEE. Currently, very few companies in their BEE deals involve democratic civil society organisations, unless it is a civil society trust linked to the ANC.

The South African government must also shelve its BEE policy of focusing on creating "big" black industrialists. "Big" black industrialists should be treated as "white" and should access funding like any mainstream company. There has to be a culture change away from seeing political capitalists, deal facilitators, go-betweens and tenderpreneurs as genuine "entrepreneurs".

It must also be compulsory for already empowered BEE companies to have BEE requirements. After one BEE transaction, BEE individuals and companies should not be allowed to participate in another BEE deal – they should be treated as fully empowered.

It must be compulsory for BEE companies to have BEE tenders, contracts, support skills development and contract SMEs like mainstream companies. BEE companies should provide employees with shares, housing and education. BEE companies must focus on supporting small and medium-sized black businesses and social enterprises, employing young people, building infrastructure and supporting new technology.

BEE companies should also operate as good corporate citizens – look after the environment, treat their contractors, employees and stakeholders ethically. BEE companies should also be compelled to support and strengthen non-public democratic institutions and democracy capacity-building initiatives including supporting civil society, anti-corruption activities and independent media.

White companies, particularly legacy companies, which operated during the colonial and apartheid eras, should provide current and former previously disadvantaged employees and their families with shares in companies. Former employees who lost out on benefits during the apartheid era should be given priority in getting shareholding as BEE beneficiaries.

Legacy resource companies, for example, should give local communities neighbouring mines shares in these companies. Surrounding communities could form social enterprises and cooperatives, in a similar way to Afrikaner communities in the early 1900s, where each community member had a shareholding. Such community social and cooperative enterprises will then become the BEE shareholders in these white-owned companies.

Companies must provide industrially relevant vocational and technical training to both current and former employees and their families. Companies could provide housing, funding for education and health insurance to their employees, where practical. Companies must bring genuine black small and medium-sized businesses into their supply chains, to provide goods and services, but also support manufacturing SMEs.

Legacy companies must compensate former employees or their surviving families for outstanding employee contributions, not given during apartheid. Many black employees died or suffered disability from illnesses such as tuberculosis and asbestosis, or from work accidents, but they or their families never got compensated. Companies still affected must compensate their former black employees who were affected by these.

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