

THE ECONOMICS OF REDRESS ¹

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1. WILLIAM MITCHELL'S REPORT

The Department of Public Works recently contracted Prof William F Mitchell of the University of Newcastle's (in Australia), *Centre of Full Employment and Equity (Coffee)*, to write a Report on what can be done to solve the unemployment and poverty problems in South Africa. The Report of 240 pages was completed on 12 June 2008. On the first page of Chapter 1, Prof. William Mitchell makes the following four statements:

First statement:

“Despite abandoning the formal apartheid system as a legal framework to define rights, South Africa does not appear to have abandoned the underlying *economic organisation and structure that underpinned and [still] perpetuated* [apartheid]. In fact, the same system that generated *economic inequalities* under apartheid continues to deny the majority of South Africans access to the production and distribution systems.”

Second statement:

“The continuation of this economic organisation and the strong policy support for it from the [ANC] government indicates that the dramatic inequalities that continue in democratic South Africa today are undeniably *a result of political choice* [by the ANC].”

¹ Paper read at the Conference of *Equality in the Workplace* at the Stellenbosch Institute for Advance Studies (STIAS), Stellenbosch South Africa, on 11 September 2008.

Third statement:

“In making the transition, the ANC government has received *poor advice* from external governments and international institutions and has been under *incredible pressure* to confirm to the [British American] “world economic order” which is typified by neo-liberal agendas.”

Fourth statement:

“[The neo-liberal] agenda makes the elimination of poverty and unemployment difficult to accomplish because it places the necessary fiscal tools in a straitjacket and does not support *redistribution* policies that more *equably* share the *wealth* generated by a nation economy.”

I do not know Prof. Mitchell. I am, however, in full agreement with the above mentioned statements by him. In his first statement he refers to “the underlying economic organisation and [power] structure that underpinned and [still] perpetuated [apartheid]”. I am of the opinion that to understand the serious problems associated with South Africa’s economics of “redress”, it is necessary to have a clear understanding of what the above mentioned “underlying economic organisations and [power] structures” are. ^{SA experience a political transformation, but certainly not a socio-economic transformation} ~~It may simplify matters if I describe the “underlying economic organisations and [power] structures that “underpin” the South African economy~~ ^{Prof. Mitchell} ~~are typical of the British-American neo-liberal “world economic order”. This *neo-liberal economic* order of the British-American world is very different from the *social-democratic economic order* in place in continental Europe.~~

In the 30 years after the discovery of gold in 1886, the British government institutionalised a politico-economic system of *White Political Dominance, Racial Capitalism* and the ideology of *Laissez-faire Capitalism* into South Africa. When the British empire finally collapsed in 1931, the two white settler groups (the

English and Afrikaans speaking whites), perpetuated the British system and ideological orientation until 1994. During the 20th century SA was the last “outpost” of the British empire.

During the early 1990s (after the fall of the Berlin Wall and the implosion of the Soviet Union) the American empire – in a mood of triumphalism that knew no bounds – institutionalised “the economic organisations and [power] structures” typical of the American “world economic order” – together with the neo-liberal ideology – in South Africa.

(in secret negotiations)

In 1993 an Elite Compromise was reached about the future economic system and policy of the new South Africa between a leader core of the ANC, the local and global corporate sectors, the Bretton Woods Institution, the American administration and the British government. As soon as the Compromise was reached, South Africa became the latest “outpost” of the American empire.

2. THE CHARACTERISTICS OF THE BRITISH-AMERICAN ECONOMIC MODEL

What is the specific characteristic of the British-American economic order that has already been entrenched in the South African politico-economic and ideological order for more than a century?

I think it is necessary to mention the following four characteristics:

- a) The power of the property and/or the wealth owning class that regards private property as more “absolute” and more “untouchable” than is the case in continental Europe.

- b) The power of the market as justified by the ideology of market fundamentalism.
- c) The extraordinary power of Transnational Corporation (TNC) within the American controlled system of neo-liberal global capitalism (i.e. within the American empire).
- d) The weakness of the democratic state in the British-American world and especially in the countries of the developing South since the rise of the American empire.

Let me elaborate on these four characteristics:

2.1 The power of the property (or wealth) owning class that regards the property rights as exclusive, more or less “absolute” and as more or less “untouchable” in British-American countries

When the British government enacted its first “social legislation” in 1909 and introduced the idea that the fruits of property should be tax to enable the state to supply to every citizen a minimum of “social rights”, the legislation was fiercely opposed by the “property class”. It almost led to a civil war in Britain. In his seminal lecture on “*Citizenship and Social class*” in 1950, T.H. Marshall put forward a strong case for what he called the “*social element in citizenship*”. In his lecture Marshall said “...that in the twentieth century citizenship [that includes the social elements] and the capitalist class system have been at war [in Britain]” (p.258). The relentless battle between the “property rights” of the property (or wealth owning) class and the “social

rights” of every citizen is still an unresolved issue in the British-American world.²

2.2 *Market fundamentalism*

The idea that the market can be trusted to allocate scarce resources efficiently and to determine prices that will reflect the *true value* of marketable goods, is deeply ingrained in the thought-processes of the BA-world. Let us accept (for now) that the allocation function of the market is unproblematic. The claim that the market can also solve the *value* problem (and with it also the *distribution* problem) is *moral* issues that can not – and should not – be allotted to the market.

It is simply not true that market prices reflect *value*. Market prices depend on many things. Three factors play an important role in determining market prices: the distribution of power, the distribution of property and the flow of information. In the BA-world *power*, *property* and *information* are very *unequally* “distributed” and consequently, all market prices are “twisted” in the favour of those with power, property and information. (See Amartya Sen, 2006: 136). According to Sen there is [not] such a thing as “the market outcome”. Consequently, there is also not such a thing as the (morally) “correct” market price.

The neoliberal capitalist system in the BA-world is based on the principle of *market fundamentalism*: i.e. the belief that we can trust the market to determine what and who have *value* and what and who are *valueless*. In sharp contrast to the neoliberal British-American countries social-democratic

² In his lecture Marshall have the following remarkable sentence: “The more you look on wealth as exclusive proof of merit, the more you incline to regard poverty as evidence of failure – but the penalty for failure may seem to be greater than the offence warrants” (p.254).

countries in continental Europe do not accept the "outcome" of the market. Continental countries agree that the government must intervene rather comprehensively to compensate for the "skewed" outcome on especially factor markets. The welfare states (Sozialstaat) in Continental countries have a strong equalising effect.

The capitalist system is legitimized by a doubtful ideology in the British-American world. To accept that the "outcomes" of the market can be trusted – and ought to be accepted – is outrageous. In the British-American world the very *unequal* distribution of property *and* corporate power, are being *perpetuated* and *augmented* by the market. It is no wonder that property and income were in 1980 more unequally distributed in the British-American world than in continental Europe and have become even more unequally distributed since 1980. (See Cornia (ed) 2004: 26-30).

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2.3 *The extraordinary power of Transnational Corporations (TNC) in the American empire.*

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Chartered corporations – like the DEIC and the BEIC – were extraordinary powerful and privileged institutions with all kinds of "state" functions (from 1600 - ±1860). Present day transnational corporations (TNC) were developed by the US after the FWW. TNC's increased sharply during the Cold War. They became much more powerful institutions since the Reagan "turn" towards neoliberal capitalism in the early 1980s and with the rise of the American controlled system of neoliberal global capitalism – or for short – the American empire. Two-thirds of the ± 60 000 TNC are American based.

In the poor South the effect of market fundamentalism is even more devastating. In these countries (SA included) the poorest 30 to 50% of the population is systematically excluded from participation in the MARKET because they have neither property nor skills to sell in the market.

It is important to realise that the American empire is a post-colonial empire. It acknowledges the independence of ± 200 countries worldwide. The US administration only has problems with a few rogue-states. From the point of view of the American administration the *frontiers* of all ± 200 countries are “closed”. The US administration will not intervene in these countries whose *frontiers* are “closed” on two conditions: they must practice “good governance” and they must keep their markets “open”, i.e. they must keep their markets “open” to enable TNCs and International Monetary Institutions (IMI) to move “in” and “out” as they please. With this formula the *sovereignty* of all countries – other than the US and the few rogue ones – are restricted by the American empire. The sovereignty of countries in the South is more restricted than the sovereignty of countries in the North, but the ~~sovereignty of all countries is restricted~~. In this way the American empire sees to it that the *sanctity of property, market fundamentalism* and the *power* and the *profitability* of the TNCs and the IMIs are protected in almost every corner of the globe, i.e. in every corner of the American controlled system of neoliberal capitalism. In this way the US created the conditionality in accordance with which the American empire exploits the rest of the world.

2.4 *The weakness of the democratic state in the British-American world and in the countries of the developing South*

The weakness of the democratic state in British-American countries is a big topic that I cannot discuss in detail. Suffice to say that since the rise of capitalism over the past three to four centuries, the elected governments in British-American countries have not be strong enough to challenge the powerful capitalist formations effectively on issues where the “social element

of citizenship” were at stake. (The only exceptions were the various Labour governments in Britain from 1945 to 1979).

The reason why democratic governments in the British-America world are weak vis-à-vis the capitalist formations, is to be found in the absence of well-developed trade-union movements and well-developed civil society movements in the British-American world. (The weakness of the trade-union movements and of civil society movements can perhaps be explained by the fact that the feudal system was abolished much earlier in Britain than in continental Europe and by the fact that the feudal system was never in place in the United States. Religious considerations may also have played a role).

The weakness of democratic governments in developing countries in the South is much easier to explain. In the American-controlled system of neo-liberal global capitalism, the sovereignty of these governments is seriously constrained by the prescript of the Washington Consensus and by the power of the mainly American-based TNC and IMI.

3. THE ANC GOVERNMENT AND THE ECONOMY OF REDNESS SINCE 1994

In the politico-economic system that was institutionalised in South Africa in 1994, the “economic” (or capitalist) element proved to be much stronger than the “political” (or democratic) element. The power of the “political” element (or Pretoria) was further weakened because the “capitalist” element (or Johannesburg) received the strong organisational and ideological support of global corporatism (or New York) and the American empire (or Washington).

In the new power constellation (or "power chain") of *Johannesburg – New York – Pretoria – and – Washington*, that was institutionalised by the Elite Compromise (1993), Pretoria is by far the "weakest link". If you ask me which "city" is the "strongest link", I do not now because the other three are, ideologically speaking, completely in cahoots with each other. If we consider the weakness of the ANC government on the one hand and the powerful position of property owners (i.e. the sanctity of property), market fundamentalism and the power of TNC, then it is not surprising that say 80% of the white became much richer since 1994. They have not been pressurized to scarpify a part of the wealth they accumulated undeservedly during the long period of exploitation (1886-1994).

Over the past 14 years, the ANC government has not been powerful enough to implement a proper policy of redress. It would, however, be wrong to allege that the deterioration of South Africa's socio-economic problems – ^{±.50%} poverty, unemployment and inequality – over the past 14 years should be blamed only on the *American empire, market fundamentalism, global corporatism* and the power of *capitalist formations* in South Africa. Although the ANC government's sovereignty is restricted, the ANC government does have some sovereignty and some manoeuvring space at its disposal – albeit restricted sovereignty and manoeuvring space. The ANC government has, unfortunately, not used its *restricted* sovereignty with prudence and with wisdom. On the contrary.

4. WHY HAS THE ANC NOT USED ITS RESTRICTED SOVEREIGNTY WITH PRUDENCY AND WISDOM?

To answer this question we must enter into a very delicate balancing act of "on the one side this", on "the other side that", and "on the third and fourth side, even something else".

- a) On the first side of this balancing act, we should remember that the legacy bequeathed to the ANC by the apartheid regime was a very bad one: the public debt increased (in current prices) from ±R90 billion in 1989 to ±R240 billion in 1994, 35% of the potential labour force was already unemployed and 50% of the population was already living in poverty with the “social side of their citizenship” almost non-existent.
- b) On the second side of the balancing act, the "reservoir" of well-educated and experienced ANC-members - with dedication to promote the Public Interest – that could be elected or appointed to fill the large number of public positions that became suddenly available for the ANC in 1994, was relative small. The apartheid regime must be blamed for this unfortunate state of affairs. During apartheid the great majority of potential "offices bearers" were *excluded* from proper education and were also denied opportunities to accumulate the necessary experience and to prepare themselves for governing the country. Consequently, the ANC experienced a serious "capacity" problem in all three levels of government from 1994 onwards.
- c) On the third side of the delicate balancing act, the ANC government did not solve its capacity problems by the manner in which it implemented its two main "redress-instruments" – *Black Economic Empowerment (BEE)* and *Affirmative Action (AA)*. They actually worsened the "capacity" problem. BEE got to a large degree "derailed" into *Black Economic Enrichment* for those that were politically well-connected. The AA policy, in turn, was driven too hard – particularly in the public sector - and as a result the *capacity* of the public sector has been rather seriously damaged over the past 14 years. The networks of patronage that the ANC has built since 1994 as part and parcel of BEE and AA ^{directly and indirectly} were responsible for the split of the ANC into two factions at Polokwane. This

will inevitably led to additional networks of patronage and to a further decline in bureaucratic and governmental capacity.

- d) But, there is also a fourth side to our delicate balancing act. This fourth side concerns the governing elite in the broader sense of the word. The ANC has since its launch in 1912 been an elite organisation. Up to now the ANC elite *was* the ANC. We could have expected that the majority of the new "governing elite" would have built a culture of service and dedication to promote the Public Interest of South Africa. This has, unfortunately, not happened. Instead of a culture of service and dedication, a culture of corruption, self-enrichment and ego-centrism have permeated a large part of the governing and administrative elite. As the ANC-elite became globally increasingly more "powerless", and also increasingly more capitalist-orientated and more corrupt within the power constellation of *Johannesburg – New York – Pretoria – and – Washington*, its policy approach became conspicuous for its *elitism* and for its *neglect* of the poor.

After taking note of the weakness (or "global powerlessness") of the ANC-government as the government of the newest "outpost" of the American empire, and after playing the delicate balancing game concerning the manner in which the ANC-government has used its restricted sovereignty, we have reason to question the ANC ability to govern this problem-afflicted country in an effective way. One thing, however, stands above dispute: the ANC has not restored the "social element of citizenship" for the poorer half of the population. As long as the ANC government remain "*globally powerless*", *internally corrupt*, *haunted by factionalism* and *extraordinarily elitist*, it will remain unlikely that it will implement a proper policy of redress. I am afraid that the "social element in citizenship" of the poorer half of the population will remain unrestored for a considerable period of time.