



THE IMPORTANCE OF SOUND REWARD-AND-PENALTY MECHANISMS¹

Sampie Terreblanche

In any community (or country) there should be sound mechanisms for reward-and-penalty to maintain the good order and to promote general interest. Since 1994, the ANC elite has abused their 'absolute' power by excessively rewarding the party's elite and protecting them from penalties. Yesterday (8 Jan 2010) the ANC celebrated the 98th commemoration of its founding. However, the way in which a cult of reward without penalties has been accepted in the ANC elite since 1994 is a dangerous indication that the ANC is gambling with the future of South Africa.

What follows is a discussion of how difficult it has been in the history of the Western world to design 'sound' mechanisms of rewards-and-penalties. At the end of the discussion, I indicate how deficient these mechanism are in the USA, but particularly in South Africa.

All communities (or countries) must have mechanisms that justly reward those whose behaviour promotes order and the common good, and that justly penalise those whose behaviour undermines order and the common good.

The mechanisms of rewards-and-penalties work differently in religious, social, judicial, political and economic fields, but their intention is always the same. If 'good' deeds are not justly rewarded, and 'bad' deeds are not justly penalised, order and the promotion of the common good are out of the question.

During the Middle Ages, the Roman Catholic Church played an important role in maintaining order and peace in Europe. The Church presented to those who displayed good behaviour the prospect of being rewarded by being chosen for eternal life, while those that lived in sin were warned that they will be penalised and that they are condemned to hell.

The ordering role that this churchly mechanism of rewards-and-penalties played must not be underestimated. Unfortunately, this mechanism became corrupted over time when people could buy indulgences, paying money to rid themselves of the sins they had committed – as well as the sins they were still going to commit!

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In the last quarter of the 15th century, various feudal territorial kings in Europe consolidated their power by brutally forcing their rebellious landlords to submission. The kings then possessed 'absolute' political power. The mechanisms of rewards-and-penalties used by these absolute monarchs for more than three centuries (to come to and remain in power) were extremely arbitrary. Faction fighting was the order of the day. Of the 39 monarchs that ascended the English throne since 1066, succession was, in more than half the cases, controversial and accompanied by murders, wars and/or usurpations. After succession, monarchs arbitrarily rewarded the faction that supported them and penalised their opponents arbitrarily.

Moral philosophers developed 'moral mechanisms' of rewards-and-penalties in an effort to promote order and general interest. Thomas Hobbes (1651) claimed that the person with rational ability is the wildest and most dangerous of all animals. According to him, all communities must be ruled by (absolute) dictators. The dictator can grant rights and property to the population, but his real task is to relentlessly penalise all forms of misconduct to enforce the necessary *order*.

Hobbes's moral philosophy created the Hobbesian dilemma, to which other moral philosophers had to find answers. Adam Smith proposed a solution to this problem in 1759. He claimed that man is in essence not as 'bad' as Hobbes claimed, and also not as 'good' as Locke argued, but that people will acquire good moral habits in a 'good community'. A 'good community' will spontaneously reward those who behave well and spontaneously penalise those who behave badly with social sanctions. In time, everyone will be disciplined to pursue their own self-interests circumspectly.

Smith failed to explain how a 'good community' is established. However, he strongly advocated that the state must uplift the poor, as a community in which great poverty exists cannot be a good community.

In the period of absolutism, the administration of justice was every bit as arbitrary as the absolute monarch's decisions. The judicial mechanism of rewards-and-penalties mostly rewarded the upper classes undeservedly, and penalised the lower classes undeservedly. Only with the rise of democracy in the 20th century – and after the acceptance of constitutional

dispensations by many countries – did the judicial mechanism of reward and penalty make an important contribution to the maintenance of order and to the promotion of the common good.

In the 17th and 18th centuries, European monarchs with absolute power rewarded their favourites by giving them chartered companies with monopolistic trading rights in parts of the colonised world. Some of the merchant monopolists were very successful and in time accumulated great power and wealth. The main theme of Adam Smith's *Wealth of nations* (1776) was a plea that the monopolistic charters be taken away from the merchant monopolists, as they abused their power to enrich themselves at the cost of the community.

In his fervour to get rid of the merchant monopolists, Adam Smith appealed to an imaginary rewards-and-penalise mechanism that could operate under certain 'ideal' circumstances in a market economy. He claimed that (i) *if* a 'good' community already exists, (ii) *if* all individuals are disciplined to pursue their own self-interest evidency, (iii) and *if* all monopolies can be abolished, the rewards-and-penalty mechanism, working through a market economy, will be so successful that individuals pursuing their own self-interest "[will be] led by an invisible hand to promote an end [i.e. the general interest] which was no part of [their] intention".

However, Smith conceded that the three conditions that must be in place before the mechanism of rewards-and-penalties via the market mechanism can deliver the required results were too rigid and would consequently never be realised.

Over time, Smith's 'invisible hand' was lauded to such an extent that it was elevated to a *myth*. As a result, his sharp criticism of monopolies, their power and their undeserved 'profits' (reward) was lost. Capitalism is continuously legitimised in the name of Smith and with the *myth* of the invisible hand. This is not legitimate! Despite Smith, monopolies and oligopolies flourish in today's capitalist system (as never before!).

In 1817, David Ricardo indicated that the Gentry (land aristocracy) in Britain represented a power block that abused their *economic* and *political* power to undeservedly reward themselves. The Gentry were the owners of all the fertile agricultural land in Britain, and also controlled the Gentry Parliament since 1688. They abused their parliamentary power to place corn laws on the statute-book, through which high tariffs were levied on the import of corn. This caused a rise in the domestic corn price, making it possible for the corn farmers (who

rented the land) to pay even higher rent to the Gentry. Each time the parliament increased the import tariffs on corn, the Gentry were empowered to enrich themselves undeservedly by means of 'rent seeking'.

Ricardo appealed for the abrogation of the corn laws and the amendment of the franchise to enable the rising industrial bourgeoisie to gain power over the parliament and to create conditions in which the industrial class of capital owners would receive the highest possible profits (rewards). From 1832 to 1846, all Ricardo's requests were complied with.

The Ricardo-inspired changes that were enacted by the British parliament, created the empowerment conditions for the rise of laissez-faire capitalism. In this Ricardian system, new industrial monopolies developed, and the industrial capital-owners succeeded with new forms of 'rent seeking' to enrich themselves at the cost of the working class.

Laissez-faire capitalism collapsed in a spectacular way – in 1914 in Europe and in 1929 in die USA. This system carried the seed of its own downfall in its unjust rewards-and-penalties mechanism. The 19th century was a terrible century for the working class and for the people of the South. They were penalised with low wages, while the owners of capital were excessively enriched.

At the start of the 20th century, Josef Schumpeter claimed that companies that succeed with technological and organisational renewal (innovations) will *temporarily* acquire a monopolistic position and make great profits. According to him, these types of monopolistic profits (or Schumpeterian profits) are permissible, as it is the special reward granted by the community to those that succeed with renewal (innovations) amid great risks and in so doing promote the public good.

In the decades after World War I, general suffrage was instituted (for men and women) in Western countries and trade unions started to rectify the (Ricardian) imbalance between the powerful position of the owners of capital and the powerlessness of the working class. After the Great Depression (1929–1933) and after World War II, all Western countries reached agreement on the desirability of a (Keynesian) social-democratic approach that was tantamount to close cooperation and interdependency between capitalism and democracy. Consequently the imbalance between the power of the capitalist and the powerlessness of the

labour class was replaced by a reasonable balanced between the power of capital and of labour.

The rewards-and-penalties mechanism that was in place in Western countries in the third quarter of the 19th century was probably the best political-economic system designed to date. The representative democratic political system corrected the inequalities and the social injustice created by Laissez-faire capitalism. This is still happening in continental Europe.

With the rise of democracy in the 20th century, the democratic principle was also accepted. According to this principle, *all* people and organisations in power – regardless of the type of power – must be regularly held to account for the way in which they use or abuse their power. The importance of the *accountability principle* (that all people in authority *had* to abide by) cannot be overemphasised. This principle is part and parcel of truly democratic system.

The 1970s was a bleak decade for the USA. The country lost wars, experienced stagflation and its prestige was lowered. In a desperate attempt to staunch this downturn, President Reagan unilaterally denounced his commitment to the social-democratic approach and, with his acceptance of the *neoliberal* approach. He turned back the ideological clock to the laissez-faire approach and the Ricardian economy of the 19th century.

Reagan's neoliberal policy resulted in the empowerment of transnational corporations (TNCs) and in the weakening of the *democratic* political system. Since 1980, the TNCs increased from 10 000 to more than 40 000.

Since the early 1980s, the TNCs (of the USA, Europe and Japan) have been mercilessly plundering the poor South as part of the American-driven postcolonial imperialism. The TNCs are new forms of monopolies and/or oligopolies that succeed with 'rentseeking' and make great oligopolistic 'profits' with the support (protection) of Western governments, the Bretton Woods Institutions and the World Trade Organization.

The rewards-and-penalties mechanism of neoliberal global capitalism generously rewards a small minority of the world population in possession of corporate power, property and skills – most probably far too generously. However, this mechanism excludes the majority of the world population because they are not productive enough and do not have the property and skills, and penalise them with structural poverty and unemployment. Three billion people try

to survive on less than \$2 per day, and approximately one billion are structurally unemployed. We live in a terrible world.

The most important difference between the social-democratic system, which was in place in the third quarter of the 20th century and Reagan's neoliberalism, is that the role of the democratic state has since 1980 weakened to such an extent that the US government cannot correct the inequalities and social injustice created by neoliberal capitalism.

Since the rise of neoliberalism and the weakening of democracy after 1980, the inequality in the domestic distribution of income for all countries and the inequality in international income distribution between the North and the South have increased considerably. The per capita income of countries in Asia compared to that of the North has in fact increased, but the disparity in their domestic distribution of income has increased so sharply that these countries are now faced with social unrest. The per capita income of the South is approximately only one-fifth of that of the North.

With the weakening of democracy since 1980, the accountability of those in positions of power has also weakened. As indicated by the Enron scandal (2001) and the Meltdown (2008), the US government no longer has the ability to effectively hold the oligopolies (or TNCs) to *account* for their misconduct. Despite Reagan's neoliberalism – or precisely because of it – the American empire has become very vulnerable.

How does the rewards-and-penalties mechanism function in South Africa?

From 1910 to 1994, white people controlled the economic and the political system in South Africa. As a result, white people were undeservedly rewarded by both systems, while black people were oppressed by both systems and penalised with poverty.

Since 1994, the class of owners of capital (the bourgeoisie) has obtained a multiracial character. The wealthiest 10 million (20% of the population) now receive close to 74% of the total income – 6,2 million are black and 3,8 million are white. The poorest 25 million receive only 8,5% of the total income.

The South Africa capitalist system is fully integrated into the neoliberal global economy controlled by the USA. The rewards-and- penalties mechanism of the South African economy is just as unjust and socially disruptive as in the American-controlled global system. The South African politico-economic system has become an integral part of the American-led post-colonial empire.

The shortcomings of South Africa's rewards-and-penalties mechanism are, however, much worse than those of the USA. In the USA we find a democratic government that yields to the power of the global corporate sector and does not correct inequalities created by neoliberal capitalism anymore. In South Africa, the ANC also does not correct the inequalities created by capitalism, but with its policy of favouring the elite, the ANC creates even greater inequalities and social injustice than are created by the South African capitalist system.

In a well-functioning democracy, voters can choose between different political parties. The party that wins then has the right to govern the country. In the following election, voters can either reward the party by re-electing it, or penalise the party because it did not govern the country as desired. South Africa has a democracy only in name. We have reason to believe that the ANC will not be outvoted in an election, regardless of how poorly it governs the country. As in other countries with a large part of the population living in poverty, the poor are too poor to participate in democratic politics in a meaningful way. Well-developed civil organisations, a prerequisite for democracy, also do not exist in their ranks. The poor's freedom of choice is also limited, as more than 10 million depend on grants for their existence.

The ANC's political power can be compared to that of the absolute *monarchs* who ruled England in the 17th century. If South Africa were a true democracy, the ANC-government would have been held accountable to maintain the good order and to promote the general interest of all 50 million citizens. This, unfortunately, is not the case. Just like the absolute monarchs (of the 17th century), the ANC mostly governs in the interest of the ANC faction who put the president and his inner circle in power.

Since April 2009, President Zuma has been rewarding arbitrarily the ANC faction that supported him and penalise the Mbeki faction(s) just as arbitrarily. This selective elite favouritism is euphemistically called cadre deployment.

President Mbeki also ruled like an absolute monarch. He was the architect of an enormous ANC patronage network. Eventually, his type of absolutism and elite favouritism boomeranged against him.

We are awaiting the ANC conference of December 2012. Due to the great ideological differences between alliance partners, a next round of faction disputes is unavoidable. At the same time, millions of ANC members are waiting desperately (but in vain) to become part of the patronage network as well.

A cult of reward-without-penalty has become entrenched in the ANC elite since 1994. The ANC elite argue that its members were penalised by apartheid and that they are now entitled to reward-without-penalty!

If this is the case, what then of the poorest 25 million? They were penalised more severely by apartheid, while their social-economic positions deteriorated even further over the past 16 years. But, due to the vast amounts wasted by the ANC since 1994 on administrative inefficiency, poor governance and extravagant reward-without-penalty of the elite, and due to the massive corruption that enables the ANC to fester unpenalised, the ANC government simply does not have the funds to spend on relieving poverty!

In addition, the accountability principle does not exist in the ANC's absolutist dispensation. The past 15 years are marked by 'milestones' of ANC failures – inefficiency, corruption, misgovernment, the neglect of the poor and the ill, and so forth. However, the ANC members responsible for these failures are not effectively held accountable by the ANC government or by our constitutional dispensation, while the members concerned are also not willing to undergo the 'pain' with which they ought to be penalised!

It is claimed that only 10% of those committing criminal offences in South Africa are caught and penalised. If this is true, South Africa is on a fast track to a failed state with the help of the 90% of criminals who are left unpenalised, with the ANC elite's cult of rewards-without-penalties, and with the revolutionary potential that its brewing in the squatter camps. When this failed state collapses, all of us will be penalised for the ANC's malpractices.