



Event Review

John Kane-Berman

27th of February 2013
at the Johannesburg Country
Club in Woodmead

At a Luncheon recently held at the Johannesburg Country Club Johannesburg in Woodmead, Members of SwissCham Southern Africa – South Africa Chapter had the privilege yet again of being addressed by **John Kane-Berman**, CEO of the SA Institute of Race Relations.



SwissCham President Thomas C. Hippele welcomed the guests who had come to hear John Kane-Berman's message on the topic:

“ Change in the offing “

After a delicious starter and main course, Thomas Hippele introduced the guest speaker, John Kane-Berman.

Chief Executive of the South African Institute of Race Relations since 1983.

The South African Institute of Race Relations, which is the country's leading classically liberal think-tank, was established in 1929 to oppose apartheid and promote goodwill across the colour line through analytical research, advocacy, and public education. Since 1946 it has published an annual yearbook containing all the important factual information about politics, governance, the economy, business, employment, education, social development, and security in South Africa. The Institute's core objective following the advent of democracy in 1994 is to promote South Africa's success as an open, free, and prosperous society based on the principles of private enterprise and liberal democracy.

When *The Economist* in October last year published its article on South Africa's downward slide, few people in the country made much attempt to gainsay it, probably because many realised there was truth in what the magazine said. The shooting by the police of 34 platinum miners at Marikana two months before that was a calamity waiting to happen. Growing violence on the part of the police had led my Institute to publish a study thereof 18 months before Marikana.

The shootings prompted international rating agencies further to downgrade South Africa's creditworthiness.

Referring to frequent, often violent, demonstrations across the country, some agencies warned that we might be facing an "Arab spring".

Moeletsi Mbeki, businessman brother of the former president, issued the same warning a couple of years ago.



These demonstrations are usually called "service-delivery" protests, reflecting a widely-held view that the African National Congress (ANC) has failed to fulfil its promises of "a better life for all". In fact, however, "service delivery" has been one of the ANC's successes. Some of the highlights are:

- 🇷🇺 More than 3 million houses have been provided (half of them free) since it came to power in 1994
- 🇷🇺 More than half black households now live in homes they own and which have been paid off, against only 43% in the case of whites
- 🇷🇺 The proportion of households with electricity has risen from half to three quarters
- 🇷🇺 The proportion with free basic water has risen from 60% to 85%
- 🇷🇺 The number of children receiving monthly state grants has grown from 800 000 to 11.7 million
- 🇷🇺 The proportion of children paying no school fees has increased from 0 to 60%
- 🇷🇺 The proportion of people living on less than two dollars a day has declined from 16% to 3%
- 🇷🇺 New HIV infections have dropped from 1 770 a day to half that (880 a day), partly thanks to the distribution by the State of millions of



So we have a paradox of more service delivery but more dissatisfaction. One reason is that even rapid state housing provision cannot keep pace with demand, so that the number of households living in shacks has also increased. Another is that many of the state-provided houses are so badly built as to be beyond repair. A third is that many local municipal councillors are so corrupt and incompetent that much protest is actually against them.

Even so, the ANC has made substantial progress with redistribution and redress.

The organisation's single biggest failure is on the jobs front. Since it came to power unemployment has doubled - from 3.7 to 7.6 million. This gives an unemployment rate of 36%. Among young black women, the unemployment rate is a tragically high 64%. Two thirds of the unemployed have been jobless for more than a year, so that millions of young people are growing up without much to hope for.

Though few analysts make the connection, much of the localised instability may be the result of high youth unemployment, routinely described as a "ticking time bomb". The Government plans to generate 11 million new jobs by 2030 via a comprehensive National Development Plan adopted by the ANC at the end of last year. However, the plan is mainly a wish list which is in any event contradicted by all sorts of other policies.

Among these is labour market policy. Labour in South Africa is costly, strike prone, and heavily protected by legislation. So we rank way down at 143rd place out of 144 for labour market efficiency on the World Economic Forum's global competitiveness index.

Another problem is poor education. On the quality of maths and science education we also rank 143rd out of 144. (Our rankings are not always that bad: for auditing standards and regulation of the securities exchange, we are on top of the list.)

But the fundamental problem is that the ruling party and its allies in the South African Communist Party (SACP) and the Congress of South African Trade Unions (Cosatu) remain committed to bringing about what they call a *National Democratic Revolution (NDR)*. This was adopted as policy by the Communist Party in 1962 and by the ANC in 1969. Since then it has been regularly re-adopted, most recently at both of the ANC's conferences last year.

The NDR has four key components:

1. **Economic** - Radical redistribution of wealth, income, and land
2. **Racial** - Use of affirmative action to make all "centres of power", as they called, racially representative
3. **Political** - Deployment of party cadres to take control of all centres of power
4. **Ideological** - Winning the "battle of ideas" against "ultra-leftism" and "neo-liberalism".

"Strategy and tactics" documents adopted by the ANC show that implementation will not be linear, but subject to the "balance of forces" prevailing at any given time. Critical in this context is the view that the Constitution under which the ANC came to power was merely a tactical compromise to be revisited when the balance of forces had shifted.

It was recognised, for example, that immediate seizure of the means of production would have caused major problems as the ANC sought to establish itself as a responsible government. Therefore the question of property rights was left on the back burner, to be revisited when the time was ripe.

That time appears to have arrived, for legislation is now proposed to limit the size of commercial farms. Any acreage in excess of what the State thinks is the appropriate size for a farm is liable to be surrendered to the State at a "fair and equitable" price to be determined by the State. This will supposedly make more land available for redistribution to blacks to rectify the injustices of apartheid legislation, which limited their land ownership and acquisition rights.

Many people pooh-pooh the NDR. It has nevertheless progressed quite far.

It is also the single best explanation for many of the things that have gone wrong in the country.



A key component of the NDR is the use of the Soviet model of government, in terms of which the party is superior to the State. The previous president of the country, Thabo Mbeki, tried to cement policy control in the presidency, partly to reduce the influence of the Left, but this was one of the factors leading to his downfall and replacement as party leader by Jacob Zuma in 2007. Under Mr Zuma, the supremacy of the party has been re-established.

The deployment of party cadres to key jobs in the public service, in government agencies, and in state-owned enterprises is also well established. Another feature of our governmental system is that the principle of "democratic centralism" applies to elected institutions.

Governors - we call them premiers - of our nine provinces and the mayors of cities are in practice appointed by President Zuma, except in a few instances where opposition parties are in control. Further centralisation is under way with plans for employees of local government to be taken over by central government.

This top-down model has three major consequences. The first is lack of downward accountability, so undermining democracy. The second is widespread systemic corruption, since the party thinks it owns the State. The third is systemic incompetence, as public servants are appointed not on merit but because of party loyalty. Incompetence is further fostered by the application of racial targets in the context of enormous skills deficits among blacks, which are in part the result of the apartheid education system.

A further implication of the NDR is increasing regulation by the State. A Legal Practice Bill now in the pipeline seeks to replace long-standing self-regulation of the legal profession by a statutory body that the minister of justice will be able to dissolve at will. The assets of the bar councils and law societies will be appropriated by the State. Plans for tighter control of the non-governmental sector are also in the pipeline. Universities will now also be subject to stricter control by the minister of higher education. He is a prominent member of the Communist Party and he says the ANC must win the battle of ideas.

With regard to the economy, it is not clear how far the ANC wishes to go. At one stage the idea was that the socialist revolution would follow the nationalist one, and this cannot be ruled out. For the moment, however, policy appears to be to harness the private sector to the needs of the planned developmental state". Legislation empowering the Government to impose mineral beneficiation quotas and prices, plus export controls, has thus been tabled. So have provisions for the government to control trading in listed mining shares.

Although the ANC has formally abandoned wholesale nationalisation of mines, it still plans to impose what it calls "strategic state ownership". Uncertainty therefore continues to plague that industry. We have recently again slipped down the Fraser index to 64th place out of 96, reflecting our declining attractiveness as a magnet for mining investment. Given that we are a treasure house of minerals, worth \$2.6 trillion, this is nothing short of tragic.



Uncertainty plagues the private sector in general, so it is sitting on a huge cash pile that it is loth to invest. Foreign investment is likely to be deterred by proposals to over-ride some 15 bilateral investment treaties with various European countries on the grounds that they constrain the Government's regulatory and expropriation powers.

Foreign direct investment is also likely to be deterred by tougher black economic empowerment (BEE) requirements that will remove the exemption foreign-owned companies previously enjoyed from handing over a slice of their equity to local black companies.

Although the National Development Plan envisages a friendlier investment climate, it is contradicted both by the ideology of the NDR and by ministers bent on more and more state control, among them the minister of trade and industry, a long-standing member of the Communist Party. When I mention this I am accused of seeing reds under the bed. But the problem is that they actually aren't under the bed: quite a number are in key cabinet portfolios, another being agriculture, forestry, and fisheries.

The upshot of all this? Well, GDP growth has doubled from an annual average of 1.6% in the last 18 years of apartheid rule to one of 3.3% in the first 18 years of ANC rule. But we are nowhere near the 5.4 % average the Government deems necessary to reduce unemployment to 6% by 2030 - over the next 18 years.

The combined effect of crippling skills bottlenecks, an overambitious and overextended state, cadre deployment, lack of accountability, and affirmative action is that government is simultaneously both powerful and weak. Billions have to be spent on "consultants" to do the work that public servants cannot. The country is struggling to cope with major infrastructural backlogs - in roads, rail, ports, hospitals, schools, and electric power stations. Dozens of local authorities do not have the skills to spend even half their capital budgets. Many even in major cities don't have a single engineer on their staff. The appointment of unqualified people for reasons of race or political loyalty to manage public hospitals has helped cause the deaths of many mothers and newborn babies.

So where do we go from here? Cato's invitation quotes me as suggesting we could follow in Zimbabwe's footsteps. When Robert Mugabe started to organise his land invasions 12 years ago and to use violence against his political opponents, he was feted by the ANC. This prompted me to voice the fear that South Africa might go that route. In our case, it would be an incremental decline rather than calamitous events - for example, breaking farms up rather than arranging for them to be invaded. It would comprise increasing lawlessness on the part of the State and its security wing, plus slow strangulation of the economy. But, paradoxically perhaps, although we are further down that road than when Mr Mugabe started his land invasions, I think we are now less likely to follow Zimbabwe.

There are three reasons for a more optimistic view, cautious though that must be. One is that the contradictory policies being pursued by the ANC are unsustainable. The second is that countervailing forces are growing. And the third is that the climate for putting alternative ideas on the table is riper than at any time since 1994.

Let's start with the contradictions. The ANC thinks it can run a modern economy, fix local government, build infrastructure, feed a growing population, combat crime, tackle poverty and inequality, finance a welfare state, create jobs, and generate electricity - without fixing black public education, fully exploiting the skills of the white population, liberalising immigration law, professionalising the civil service, or making the country friendlier for business.

They will no more succeed in doing this than the apartheid government succeeded in running an economy based on racial exclusion. Apartheid disintegrated as the contradictions played themselves out, and the same will happen with the ideology of the NDR.

Let's take an example or two. You can declare war against rape, as Mr Zuma recently did because recent horrors have put it back on to the front pages, but you can't combat it as long as the police force is subject to cadre deployment and affirmative action. You can announce, as the chief planning minister recently did, a dramatic shake-up of the public service so as to build what he calls a "capable state", but you can't actually build such a state as long as the public service is also subject to cadre deployment and affirmative action, and as long as you keep deferring to militant public sector trade unions.



These contradictions are helping to strengthen the countervailing forces. The complacency so prevalent in South Africa post-1994 is disappearing. Sometimes quite literally, vigilance is on the march as the country experiences a reawakening of the civil society that played a role in the ending of apartheid but which has until now been part of the complacency problem. When the Government fails to deliver textbooks to black schools, it now finds itself in court. The Media and black intellectuals have become increasingly critical. That the pervasiveness of corruption is known to us is thanks in part to never-ending leaks to the Press by officials eager to expose it. They are leaking so much that the government is now trying to put clamps upon them and upon the Media.

It can of course try to do this, and for a time it may succeed, but the ANC knows that ultimately power rests not on draconian legislation, but on legitimacy. And its legitimacy is in decline.

Some of its most trenchant critics are within its own ranks, among them a one-time ANC intelligence minister who last week (5th March) denounced what he called "the sinister growth of security powers and the culture of police brutality". Fully a quarter of the police budget is now set aside for expected civil lawsuits against them! Many cadres deployed as local councillors are under violent attack. Many women are likely to be alienated by legislation putting them under the judicial authority of tribal leaders. The Legal Practice Bill will alienate much of the legal profession. Plans to interfere in universities will alienate institutions that have not been among the ANC's most prominent critics.

Some of the countervailing forces have started to win victories. Plans for a media tribunal have been shelved. Plans to put the courts under the control of the minister of justice have likewise been shelved. President Zuma has been forced to appoint a judicial commission of enquiry into possible corruption in a major arms purchase deal.

There are early signs of retreat even from the cadre deployment policy, so essential to the party's grip on the State. Recognising the damage it has done at local government level, Mr Zuma himself sponsored legislation to appoint municipal managers on merit rather than party loyalty. The health minister recently announced the

appointment of 100 healthcare professionals as new chief executives to run public hospitals in place of the party apparatchiks who have been busy destroying these institutions, on which, of course, the poor rather than the middle class, depend.

South Africa has long congratulated itself on its industrial relations system. This is essentially a cartel between big business and big labour with government backing. Minimum wages are agreed between them and then imposed on smaller companies, even at the cost of driving them out of business. This system, which prices millions of unskilled people out of the labour market, is now under unprecedented attack. Rebel employers in clothing, steel, and engineering are using the courts to challenge attempts to close down their factories if they undercut the wages of their bigger competitors.

At the same time, the power of the ANC's trade union ally, Cosatu, is being challenged on the shop floor and at the mine shaft by rival unions. The breakdown of the cartel is an essential step towards the de facto liberalisation of South Africa's labour market, without which we have no chance of combating unemployment.

The secretary-general of the ANC, Gwede Mantashe, recently complained that the organisation was under siege from all its critics. It certainly seems to be running scared.



At the end of last year it refused to allow opposition parties to table a motion of no-confidence in President Zuma, even though the Constitution provides for such votes.

Given the ANC's two-thirds majority in Parliament, there is no chance Mr Zuma would have been unseated. But the ANC was probably worried that enough of its normally obedient MPs would stay away rather than support a president whom many in the party suspect used irregular tactics against his opponents. Strife within the party has descended to the level where members are now alleged to be assassinating one another.

There is little chance that opposition parties will unseat even a deeply divided ANC at the general election due in 2014, or probably even the following one in 2019. But the ANC's support, like its moral authority, is on the wane. While it commands two thirds of Parliament, its share of the total eligible vote has dropped from 54% in 1994 to 39% in 2009. That of the official opposition, the Democratic Alliance, has risen from less than 2% to 10%.

Until now, the ANC has had an easy run. Tax revenues have grown sufficiently to finance the Government's growing welfare commitments, but taxes are now starting to fall short of budget, leading to larger deficits (currently 5-6%). Ratings downgrades will put up borrowing costs, while the ANC's hostility to business will keep down investment and growth. Until now our chronic current-account deficit has been financed by inflows of foreign capital, but these may diminish as the ANC is increasingly seen not only as corrupt, but also as unable to maintain either fiscal prudence or law and order.



The problems facing the fiscus in fact present an opportunity. In his budget review last month the finance minister said job creation now depended on private sector investment. But he won't get the private sector to invest until he has convinced President Zuma, his colleagues in the Cabinet, and his party to overcome their antipathy to business. When the ANC came to power in 1994, it commanded such admiration and respect both at home and abroad that few people were willing to question its ideological provenance.

The damage done by apartheid, all of it carefully documented by my Institute dating back to 1929, was so great that it was widely assumed that only an equally ambitious form of racial and social engineering would succeed in reversing its effects. Hence, racial preferencing laws and the attenuation of property rights, handily both fitted in perfectly with the ideology of the NDR.

But growing recognition of the failures of these policies makes the ANC now more vulnerable than before to alternative ideas, notably the idea that the real alternative to apartheid is not another form of engineering but a society based on economic as well as political freedom. There is a large constituency for political freedom and for defence of the Constitution and the rule of law, but only a handful of organisations and public commentators recognise the importance of economic freedom. This must include the removal of barriers to market entry for the jobless, and of the red tape hampering all business but crippling small business.

So there is a battle of ideas to be fought, not only in exposing the contradictions in the current package of policies, but also in ensuring that alternatives are constantly injected into public debate. This is what happened with apartheid.

When that policy crumbled, it did not leave a vacuum. Nor was the post-apartheid constitution drawn up in a vacuum. It was built in part upon solid ideas about the rule of law, human rights, constitutional sovereignty, and the separation of powers that were familiar right across the South African political spectrum. This is because a great deal of energy had gone into promoting them. The same has to happen with alternatives to the National Democratic Revolution and other policies.



These alternatives include professionalising the civil service by scrapping cadre deployment. They also include decentralising government and shrinking the state to do only the essentials. All state-owned companies would be put up for auction, while private schooling and private health care would be extended rather than reduced, as current policy intends. Except for a basic floor of health and safety requirements, labour law would go. Racial preferencing laws would be replaced by colour-blind policies aimed at correcting current rather than historical disadvantage. We would shift the focus of policy from redistribution to growth, and from welfare to entrepreneurship.

You get the picture! This may sound pretty fanciful and absurdly idealistic. At this stage that does not matter. The point is that most people in South Africa can't yet conceive of an alternative to the ANC's policy thrust. So the key point is to hold out alternative ideas, which will become more and more attractive as the contradictions play out and the ANC's policies fail, and are seen to have failed. The ANC has repeatedly voiced the fear that it is losing the battle of ideas. One of the key objectives of my Institute is to make sure that they do lose it. It will be a long haul, but we are now more confident of success than at any time since 1994, John Kane-Berman concluded.

Daniela Maurer for
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