Overgrown ‘Goods Lines’ and the ‘Belle of the Ball’: The shifting role of business in achieving a new ‘social compact’ and shared vision in South Africa

Ayabonga Cawe

Africa Centre for Dispute Settlement Working Paper 2017/3

Ayabonga Cawe is Founder and Managing Director of Nonzaba Holdings, and outgoing Programme Manager, Economic Justice at Oxfam South Africa. aycawe@yahoo.com

This paper was written as a contribution to the research initiative entitled Engaging the Business Community as a New Peacebuilding Actor. It is a joint project of the Africa Centre for Dispute Settlement (ACDS), CDA Collaborative Learning Projects (CDA), and the Peace Research Institute Oslo (PRIO), funded by the Carnegie Corporation of New York and the Norwegian Ministry of Foreign Affairs. The project aims to fill the large gap in evidence regarding the effectiveness of business efforts for peace, providing a framework and practical guidance for more effective planning and evaluation of business-peace initiatives, policies and practices. Comments, critiques and corrections are welcome.

Introduction

A political economy, any political economy for that matter, has material, social and psychological effects on people. Before log frames, utilization rates, return on equity and earnings before interest, tax depreciation and amortization (EBITDA), a society’s balance sheet is held up by people and their ‘bodies’. As writer and columnist Ta Nehisi Coates notes in a letter to his 15-year-old son;

*Remember that the sociology, the history, the economics, the graphs, the charts, the regressions all land, with great violence, upon the body.* (Coates, 2015)

Komani. I grew up a stone’s throw from an old ‘Spoornet’ goods line, in a suburb that had been built a decade earlier to house late Apartheid’s railway workers and civil servants. The early rail apprentices, teachers, nurses and other professionals and tradespeople; were a reminder of the National Party’s relative ‘success’ in solving the ‘poor white problem’. Before we moved there in 1994, we lived not far from the now, relatively unused, factories of the Apartheid homeland infant industry experiment. Warehouse after warehouse, on the edge of a border town nestled between Ciskei and Transkei. Some would later state that these were the ‘white elephants’ of the free tax zones that South Africa had negotiated with the Transkei homeland regime. Nostalgia aside, one mentions this experience, because in hindsight it explains the role that not only business, but our entire political economy played in the spatial reality that acted as the backdrop of my own formative years. Moreover, this early experience occurred at the same time as our country’s tumultuous transition to democracy.

Komani a decade earlier had been the site of one of the most repressive states of emergencies, which resulted in a massacre in the township of Mlungisi in 1985. The people had been engaged for a few
months in a consumer boycott that had the potential to cripple the white industry of the town, and by extension the livelihood of the white community on the other side of the railway tracks. The people understood that their strength not only rested in the withdrawal of their labour, but also the withdrawal of their spending power. More importantly, it was a recognition by local civic structures that local white businesses were as much part of the architecture of Apartheid as the local National Party structures and the Broederbond were. This role, one argues, created a ‘path dependence’ that limited the role that organized business played in the transition, and its subsequent attempts (or lack thereof) at contributing to socio-economic transformation. The genesis of this ‘path dependence’ is captured by Former President, Thabo Mbeki in his seminal paper, *The Historic Injustice;*

> The landing of the employees of the Dutch East India Company at the Cape of Good Hope in 1652, represented in embryo, the emergence of class society in our country. And that class society was bourgeois society in its infancy…. (Mbeki, 1978)

Moreover, this society had distinct features rather early on, that robbed its form of colonial settler capitalism of any pretense of being a ‘free’ and ‘socially inclusive’ marketplace;

> …. South Africa is unique to the extent that profit maximisation is the overt, unhidden and principal objective of state policy, and can therefore be regarded with respect to this characteristic as an almost perfect model of capitalism, cleansed of everything that is superfluous, its essential characterisation; a model which displays to all, in their true nakedness, the inner motive forces of this social system and its fundamental inter-connections. (Mbeki, 1978)

In addition to these ‘fundamental inter-connections’, are two competing logics that existed within the business community. These logics served to reinforce the heterogeneity of organized business that has been a feature of the political economy of South Africa. The first is that many have argued (Fine and Rustomjee,1997)(Sparks, 2012) that the economy of South Africa has always served as the battlefield for Afrikaner and English capital. Mining capital, much like the late 19th and early 20th century political power, was very much ‘English’. The political victory of the Nationalists in 1948, presented an opportunity to give economic meaning to the emergent political power of the Afrikaner. This process involved the creation of infant industry, development of Afrikaner finance and consolidated and holistic support for white commercial farmers.

Secondly and interestingly, attitudes within business on both sides of the English and Afrikaner divide were different, at different times of the regime’s lifespan. The liberal bent of English capital for instance, often betrayed its complicity in a system built on the dispossession and exploitation of black people. No one leader personified this better than Harry Oppenheimer;

> I’ve always rather pompously said,” he reflected at the end of his career, "that the best way to make money for a group like ours is to make the money as a by-product of developing South Africa” (Oppenheimer quoted in the Telegraph, 21 August 2000).
Business and The Truth and Reconciliation Commission

The above quote by Harry Oppenheimer reflected a ‘belief’ that profit maximization, even if based on a heinous and inexcusable form of racism and naked capitalism, would ‘develop’ South Africa for the benefit of all (black people included). That such a view came to be shared by influential segments of Afrikaner capital towards the end of Apartheid is also telling of the limits associated with placing established business at the center of transformational efforts post-Apartheid. Idealistically, many ANC policy wonks thought at the time of the transition, that in the new South Africa, business wouldn’t pursue ‘business as usual’. If one sat at the Truth and Reconciliation Commission (TRC) business hearings in 1996, one wouldn’t be surprised at such naivety. The optimism of the time (‘reconciliation mania’ and ‘Madiba magic’ in tow) concealed some of the difficult structural questions that socio-economic transformation efforts would be required to confront. As Stellenbosch academic Professor Sampie Terreblanche noted at the TRC in 1997:

*If one understands the structural nature of South Africa’s political and economic system correctly then it is clear that the one side of the South African structural coin impoverished the Africans while the other side of the same structural coin enriched the whites, especially during the first 70 years of this century.* (Terreblanche, 1997)

The hearing at which Terreblanche made these remarks was a session looking at the activities of the business community and their direct benefit from the apartheid regime. Interestingly, the session included Raymond Parsons (then Chamber of Business representative), Johann Rupert (Remgro), Mike Rosholt (Barlow Rand) and former Anglo American and Eskom executive Bobby Godsell. The hearing went a long way towards leaving the public with the impression that big business was always to the left of the apartheid regime and never really “supported” the system.

Much to the protestations of Jay Naidoo and Mbhazima Shilowa, the session, as the recording’s presenter Max du Preez noted, created an impression that exonerated the business community of complicity in the crime of apartheid:

*In an historic moment the powerful men heading Anglo American, the richest and most powerful corporation in South Africa, took their place on the Truth Commission platform. But despite the many dark suits and striped shirts one could at times be forgiven for thinking this was a meeting of anti-apartheid movements, with many claiming to have always opposed apartheid.* (Du Preez, 1997)

It is, after all, difficult to find anyone in this day and age, who admits to having supported, publicly or implicitly, the apartheid regime. Retrospectively, no one wants to be found on the wrong side of history. This history, is important to retell here, because, as Ta Nehisi Coates reminds us; history isn’t always genteel, well-mannered and collegial (as that hearing at the TRC in 1997 was), ‘it is a visceral experience, that it dislodges brains, blocks airways, rips muscle, extracts organs, cracks bones, breaks teeth’ (Coates, 2015), in defence of property.
However, as I stated above, this role was never confined to defence of a common interest with the National Party and preceding regimes. Business in the 1980s was also able to take the initiative to break the deadlock between the ‘verkrampte’ elements in the National Party and influential sections of the liberation movement. Through the meetings in Dakar, Mells Park and later through the development of the Consultative Business Movement (CBM), business was able to locate itself at the centre of the shifts and changes occurring in South Africa’s political economy landscape during the transition. So why has this ‘influence’ perceptively waned in recent years? More importantly, what role can business play in creating the conditions for a new social compact to emerge?

In response to the question above, two arguments are made below. Firstly, business considers playing a role in such a new social compact, in a context where there is growing discontent and despondency with the preceding social compact at the base of the democratic transition. It is seen by many as an elite compact based on reconciliation without retributive and material justice. Secondly, the need for a new compact occurs in a context wherein deep mistrust exists between business, the state and other non-state actors, alongside key governance and structural failures in education, healthcare, infrastructure and the labour market. Throw into the mix the heavily concentrated market structure that lends credence to claims that South Africa’s political economy is still dominated by ‘white monopoly capital’ and you have the stage set for a drama with more intrigue than one’s favourite Netflix drama series.

Depending on which side of the political divide one sits, one would agree that the ‘failures’ (and even successes) of the last twenty-three years, have given rise to attendant claims to social justice. Much of these claims have consisted of a mix of ‘unresolved’ age-old issues (land, nationalization, national minimum wage, housing and a ‘social wage’) and those which although not new, have been given ‘new’ energy by millennials (‘free education’, challenging of colonial and Apartheid symbols, and epistemic challenges to the intellectual establishment). The underlying message of these struggles, is that the pacts of old haven’t resolved the challenges of today. This in a telling way presents significant limits to business, if it remains invested in the ‘elite pacts’ of the 1990s. Deputy Minister of Finance, Mcebisi Jonas put it eloquently in an article recently published in the African Communist;

...the rise of redistributive populism is a stark reminder that elite-driven transitions have sell-by dates. The message is simple: we exclude at our own peril. There can be no shared vision around which South Africans can unite that does not more aggressively address race, class and gender based inequalities. (Jonas, 2016)

Call it what you will; ‘redistributive populism’, ‘radical nationalism’, ‘Keynesianism’, ‘socialism’ or ‘a path to economic freedom’, the nomenclature matters little. What does matter, is what this signals; a clear departure from the seemingly ‘neutral’ and ‘non-antagonistic relations’ (least not openly) between business and ‘everyone else’ since 1994. The ‘rainbow’ honeymoon is indeed over, and as Jonas notes, ‘elite-driven transitions have sell-by dates’. Associated with this, is the limited value placed on dialogue, consensus and debate in getting towards a ‘social compact’. The sense is that those methods served blacks (and Africans in particular) a ‘bad deal’ and new ‘tactics’ are needed. There must also be a recognition, that ‘transformation’ (and for the youth, ‘decolonization’) is not an event, but a continuous process aimed at building a new society;
Hence, the positive legacy of the business contribution to transformation remained limited by the very suspicions noted above and some believe that the transformation honeymoon is over. While it may have exited its romantic period, transformation is never done, and it is clear that a new phase of transformation is beginning, one that will require renewed vigour from the private and public sector alike. (Marais & Davies, 2015)

Related to this sense of a need for a ‘new’ social compact, is the pervasive and existing mistrust between business (at least organized big business) and state and non-state actors. One argues that this mistrust occurs largely due to perceptions of a ruthless and cavalier attitude of business to ‘exclusive’ profit and ‘rent-seeking’ and secondly due to the historic role of business in a concentrated and oligopolistic economy like South Africa. A recent editorial of the African Communist (the same volume with the Jonas quote above) captured this well;

*We have inherited a political economy with extremely high levels of private, oligopolistic concentration, dependent, in turn, on an excessive reliance on mineral exports. It is this structure that continues to reproduce crisis-levels of racialised poverty, inequality and, above all, unemployment. Indeed, post-1994 the problematic features of our monopoly dominated economy have worsened with financialisation, massive capital flight and an investment strike. The impact of the major redistributive effort is constantly eroded by a productive political economy that exacerbates inequality, un- and under-employment, and therefore grotesque levels of poverty.*

The link between an economy within which ‘business’ continues to have a significant ‘interest’, and the role such an economy has in reproducing ‘poverty, inequality and unemployment’ is a link which breaks the laissez faire assumption that the ‘private interest often aligns with the social interest’. A few (although not exhaustive) examples of this discord between the interests of business and the people require mention. The examples are those of behaviours by businesses that have undermined the commitment at the TRC, ‘that we could have and should do better’. They relate to tax/investment avoidance and casualization of labour. In addition to this, a discussion of the limitations of what could potentially be a ‘shared vision’, in the form of the National Development Plan’ follows.

**Tax and Investment Avoidance**

It is a well-known fact that many firms shirk their tax obligations and their ‘moral’ duty to invest in South Africa by engaging in sophisticated misinvoicing and internal trade and provision of ‘services’ by the parent company to a subsidiary. An example of this “trade in services and intangibles” emerged in a 2014 AIDC report revealing that mining company Lonmin paid on average more than R200-million from its local subsidiary in “sales commissions” and “management fees” to a Lonmin subsidiary “structure” in Bermuda, between 2007 and 2012 (Forslund, 2015). This occurred despite the local subsidiary, Western Platinum, paying more than R1.7-billion internally between 2009 and 2012 (for the same “service”, I assume) (Forslund, 2015). It is rather troubling that such sophisticated arrangements, conducted with the support of the professional services industry, are often seen as legitimate “tax planning” initiatives. It cannot be that such “structures” should be beyond the scrutiny of the public, and one hopes that the revelations in the Panama Papers will remind us of, and exonerate the memory...
of, the more than 30 workers killed for demanding a “living wage” in the age-old distributional conflict between native labour and settler capital.

**Labour Concerns**

This distributional conflict, as is often understated, is not only confined to avoidance or “evasion” of obligations to the taxman, it also involves avoidance of shop-floor obligations between employer and employee. Avoidance, as one would expect in pursuit of profit, is not only restricted to the sophisticated mechanisms outlined above, but also to the opportunity cost of foregone wages. By illustration, the AIDC makes the following example in its report;

*...when profits are shifted from subsidiaries out of the country, the effect on wages is bigger than the effect on tax revenues. Schematically if the corporate income tax (rate) is 28%, a company has to move R100-million to a tax haven to avoid R28-million in taxation.* (Forslund, 2015)

Equally, it is not just the R28-million that is lost to the country’s fiscus that matters, but the remainder of the R100-million, which could have played a role in addressing the living conditions of workers among other uses. A recent Amnesty International report outlines how British platinum producer Lonmin failed to meet its promises as outlined in its social and labour plans (a key driver of the discontent that spilt over into the Marikana massacre in August 2012). (Amnesty International, 2016)

Similarly, the living conditions of a contract worker like Thabiso Thelejane, who was killed in Marikana, offers an insight into another form of wage avoidance; outsourcing. A practice occurring at every segment of the value chain of almost every sector of our society, even in local government. As the *Casualties of Cola* report indicated, in the case of the ABI and SABMiller Drivers Black Economic Empowerment programme, what was at stake was not just the viability of the ill-fated scheme and the firm as a whole, but “*the very concept of outsourcing and casualisation in a country with enormous and unsustainable divisions between the rich and the poor*. (Poplak, Gasa, & Swingler, 2016)

It is little wonder that the student movement has championed the call to end outsourcing as part of its political programme. It is a timely reminder that the scars the TRC meant to heal are opened every day, in the lived reality of the women and men who labour in precarious work against the backdrop of plenty. From retail to cleaning services to farm work and illegal mining, the experiences have similar patterns of exploitation. “*... we labour and have no rest.... we get our bread with the peril of our lives....*” (Lamentations 5:9)

**Enter stage left.... white monopoly capital?**

One of the oldest statements of political intent in South Africa, the Freedom Charter envisages a society where ‘*the mineral wealth beneath the soil, the Banks and monopoly industry shall be transferred to the ownership of the people as a whole.*’ At its base, the Charter, as one of the earliest statements of the political aspirations of the black people and Africans in particular, expresses a recognition that in order to ‘change’ the South African social formation, ‘breaking monopolies’ needs to be at the centre of ‘democratizing’ the economy. Much of this monopolization, is ‘real’ and not only
rhetorically ‘perceived’: *four millers most of us, three telecoms providers connect us all and four banks bank us all*.

The conversation about ‘white monopoly capital’ also has contemporary relevance. It is often used by the aspirant or emergent black bourgeoisie linked to the state as a rationale for using the state as a site for accumulation, or to chastise those who complain about the undue influence of the Gupta family. Political ‘footie’ aside, the term has allowed for a welcome return to a conversation about the excessive concentration of the South African economy. As economist Dr. Neva Makgetla noted in a recent article in the Business Day, ‘there isn’t a lot of debate about the unusual concentration of ownership and economic power in South Africa’;

> To take one indicator; in 2014 just 616 companies paid two-thirds of all company income tax in SA. That’s less than 1% of the 700 000 enterprises registered for tax. The top 616 companies reported more than R100m in taxable income apiece. (Makgetla, 2017)

During the transition, the ‘line of march’ in engagement with ‘white monopoly capital’ (least of all from the liberation movement) was to engage on the basis of ‘representivity’ and ‘proxy ownership’. Very little about creating new economic interests where such didn’t exist before, or creating market access for emerging players. As Makgetla notes;

> If government really wants to tackle monopoly power in SA, it has to deal with market structures and the systems that underpin it. That means working with large companies more systematically to achieve developmental aims such as equity, job creation, broad-based empowerment and sustained growth, whilst promoting small producers and self-employment on a much larger scale. (Makgetla, 2017)

What Dr. Makgetla is saying above is important, especially in light of technological advances that create greater space for ‘self-employment’ and greater market access for smaller players. The conversations around ‘digital jobs’ fit into this framing. However, in South Africa such advances occur in a context where exclusive lease, supply and other agreements and other barriers to entry continue to create significant ‘rents’ for incumbents. In many ways, these standing agreements not only signify ‘barriers’, but are ‘assets’ in the hands of those who capture ‘value’ in a manner that mirrors the exploitation of yesteryear.

Why does this matter? As Thomas Piketty reminds us, in capitalist economies wealth grows faster than income, implying that existing holders of capital see faster returns than those with jobs. In South Africa, a major reason why inequality has not fallen, ‘is that returns to those with assets (and skills) remains much higher than those of new entrants’ (Piketty, 2014). Recent studies by the Centre for Competition, Regulation and Economic Development (CCRED) have shown that significant barriers to entry, much like those mentioned above, continue to exist in South Africa in retail banking, grocery retail, agriculture and the telecommunications sector (das Nair & Chisoro, 2016). Moreover, in a global economy characterized by increasing financialization, recent reports by the Competition Commission of fixing of foreign exchange markets’ bid-offer spreads among 12 local and international banks, signals that not only is narrow self-interest the name of the game, but it is thus, in a manner that often undermines the policy sovereignty of nation states.
If business is to contribute to the transformation and far reaching structural reforms that we envisage, they need to be part of the process of breaking the ‘market structures and systems that underpin’ such rent-seeking and value capture. It cannot be ‘business as usual’.

The National Development Plan

The National Development Plan (NDP) is a long-term plan outlining the country’s vision and plan to eliminate poverty and reduce inequality by 2030. Vision 2030, adopted by Cabinet in 2012, aims to create 11 million jobs by 2030 and significantly reduce inequality. However, due to South Africa’s current low growth environment, the growth targets to achieve these jobs have been elusive. As Marais and Davies note, the commitment of the private sector to the NDP, will test the ‘bona fides’ of business’ commitment to not only ‘transformation’, but the national project of a ‘new South Africa’;

>The success of the NDP, deemed one of the country’s most strategic initiatives, will ultimately depend on all the stakeholders involved and their willingness to make the compromises required to make it work. This may be South Africa’s, and the business community’s, true historic compromise – one that demonstrates the capacity of the private sector to contribute to a holistic socio-economic transformation that will build on the bona fides of the historic role of business in transformation to date (Marais & Davies, 2015)

A 2013 CFROI (cash flow return on investment) performance handbook produced by Holt, a group in the equities division of Credit Suisse, indicated that South African firms were among the most profitable in the world. Such profitability, it is assumed and the ‘theory suggests’, will lay the basis for the investment in the real economy that is likely to generate the jobs targeted by the NDP. However, labour and other constituencies have often charged that the private sector is on an ‘investment strike’. The claim has been made for the last decade or so, and has even had support in the pro-business media, as Alec Hogg noted in a 2016 article;

>South Africa’s dial has long been moving in the wrong direction. Where investment is being made, like in the motor industry, direct State subsidies are required to overcome other concerns. The accumulation of cash on local company sheets sends a clear message. Capital is cowardly, and those who control its allocation see little attraction in geographies where returns are low and the risk of loss high. With their ever growing cash balances having hit a record R725bn, it’s obvious South Africa Inc. is on a long-term investment strike.

Are the ‘risks of loss’ that high in South Africa? Is Capital cowardly? These are moot questions. The real issue at play, is that the long term blueprint of the country relies on firm level profitability and ‘wage repression’ to achieve competitiveness, employment, reduction in inequality and a ‘better life for all’. At least that’s the sense one gets from the ‘dynamic diversified economy scenario’ presented in chapter 3 of the NDP;

>The substantial commitment to reducing the cost of production and living bears fruit and South Africa becomes a more attractive investment destination…. these actions improve wellbeing so that although, the majority of jobs will be created in low-skill services, families are able to achieve a decent standard of living. (National Planning Commission, 2013)
What is meant by lower production costs? If one is to safely assume that this refers to administered prices, labour and other costs of production, then the labour ‘factor’ remains a contentious one in a country like ours. It is clear from this ‘desired scenario’ that much of the employment is expected to come from low skill services (hairdressing, EPWP etc.) in a fast changing global landscape of work, with value chains characterized by diffuse geographies and relatively low value capture in the Global South.

The assumptive logic of the NDP’s focus on repression of production costs (in particular labour) is an outcome of a long-standing debate in the field of economics; is the South African economy wage or profit-led? What is meant by this? Simply put, it is a distributional conflict between wages and profits. More importantly the impact on macroeconomic performance of shifting the distribution of ‘income’ in favour of either wages or profits. If the shift towards profits or wages has a positive impact on aggregate demand, then the economy is respectively profit or wage driven. We’ve seen for instance in South Africa that profitability has not necessarily accounted for better macroeconomic performance, and this can be explained by the ‘investment strike’ or the diversion of finance away from real economy investment, discussed above. Does this mean that South Africa is a wage-led economy? This is yet to be tested, largely due to the insistence on maintaining wage repression in favour of profits since the disavowal of RDP in favour of GEAR in 1996. Our policy processes are still stuck in thinking that firms are the ‘goose that lays the eggs’, without a discussion of how the labour power of blacks in South Africa has built this political economy. As the recent work of the National Minimum Wage Advisory Panel showed, there is great potential in improving wages at the bottom and ‘low-skill, low-productivity’ segment of the labour market has potential (through consumption channels) to boost aggregate demand and macroeconomic performance.

Conclusion

The Spoornet ‘goods line’ down the road from Buffalo Road in Komani Park where I grew up, is no longer ‘active’. The overgrown grass that lines the steel rails is a symbolic marker of where we are, relative to where we thought we would be 23 years ago. The neighbourhood now houses civil servants of a different regime and hue. A lot has happened since the days when the loud chugging of the ‘goods train’ reminded us that we’d slept in too long on weekends. The ‘mania’ of ‘Mandela magic’, GEAR, a jobs bloodbath, a commodity boom in the 2000s, the 2007-8 financial crisis and Marikana since. Relationships between business, the state and non-state actors have moved from warm to cold and to lukewarm. The state of these relationships is not the doing of business alone, and shouldn’t detain us for too long here. Safe to say that, there is a need to do things in a markedly ‘different’ way. This is in recognition of the ‘structural continuities’ from Apartheid that business continues to be invested in reproducing. The language of ‘labour market flexibility’ is ‘insensitive’ in an economy built on cheap labour. Continued attempts to build an economy based on wage repression in the absence of a far reaching social wage, conversely limit the role of business to contribute to a ‘shared vision’ and new social compact. This difficulty presents itself in a ‘politically charged’ context, and as should be accepted, South Africa Inc. can no longer continue on its well-worn path. Significant shifts are required to change the culture of ‘enrichment’ that rests uneasily alongside a culture of ‘chronic impoverishment’ To achieve this, a change in mindset and a more critical appraisal of the NDP is needed, one that questions the role of business as the ‘fragile goose’ that must be accommodated (sometimes at the cost of other priorities) to ‘lay’ our ‘societal eggs’. Such a shift will frame the role of
business alongside other social partners as an equal player, and not as some market economists suggest; as the ‘belle of the ball’.

Bibliography


