

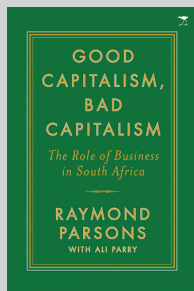
Good capitalism versus bad capitalism: A review



Book Title:

Good capitalism, bad capitalism - The role of business in South Africa

Book Cover:



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ISBN:

978-1-4314-2618-8


Publisher:

Jacana Media, 2018, R180*
*Book price at time of review

Review Title:

Good capitalism versus bad capitalism: A review

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How to cite this book review:

Strydom, P.D.F., 2019, 'Good capitalism versus bad capitalism: A review', *South African Journal of Economic and Management Sciences* 22(1), a2794. <https://doi.org/10.4102/sajems.v22i1.2794>

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Introduction

Effective institutions are not only important in determining the success or failure of economic development but they are significant in shaping economic policy while exerting discipline on government via institutionalised checks and balances to secure a consistent implementation of economic policy measures. This is an important theme in *Good capitalism, bad capitalism: The role of business in South Africa*. The book analyses the role and voice of business in achieving affective policy outcomes in South Africa. It covers the past and present role of organised business in achieving such outcomes to secure successful economic development within the context of good capitalism where successful institutions secure widespread participation of the population in an inclusive economy. Failure in achieving such outcomes is detrimental to economic development and could be labelled bad capitalism as outlined on pp. 155–156. The history of these successes and failures is analysed within the context of political economy. This particular perspective is an important contribution to the South African political economy literature. Although the narrative of good and bad capitalism serves the exposition well, it should, nevertheless, be kept in mind that despite a liberal constitution and market-related economic institutions, our economic system is not a capitalist one. It is a developmental state and one with a poor delivery capacity as implemented by the post-Mandela African National Congress (ANC) governments (see for instance p. 124). In essence, good governance is presented as a critical element in the exposition. The book uncovers the role of organised business in securing or failing in promoting good policy governance.

The exposition could be systematised in terms of three themes. Firstly, the role of business in resisting the expansion of an authoritarian and oppressive apartheid regime while securing progress towards democracy. Secondly, the business contribution towards effective policy governance in a democratic South Africa, while hesitantly resisting the failing developmental state. Thirdly, the way forward for organised business in securing effective governance in a post-Zuma era and the 'new dawn' à la President Ramaphosa.

From repressive authoritarianism to democracy

The position of business under the apartheid regime was complicated by many factors. In supporting free enterprise it was obliged to resist the racially discriminatory policies that prevented black South Africans from entering business as entrepreneurs or from establishing labour organisations. Moreover, business's success and expansion were adversely affected by particular laws that governed the movement of people and prevented black South Africans from entering skilled job categories. Numerous efforts by business to oppose these discriminatory laws were without success. Instead, the bureaucratic law enforcement machinery became more intolerant towards business. Business experienced progression and regression in its efforts to change the behaviour of a regime that did not hesitate to apply violent actions to achieve its goals. These difficult and contradicting situations have been aptly described as follows:

The business community was caught between the recognition of the inevitability and desirability of significant political reform and a range of developments which resulted in a great deal of instability and uncertainty (p.35).

Where direct opposition to the state failed, business was often more successful in staging resistance through entrepreneurial efforts as part of civil society. These efforts were not always structured and in most instances not documented. The result is that they often escape the scrutiny of careful analysis. They, nevertheless, formed part of civil society's resistance and together with growing media coverage, a new wave of progressive thinking gained momentum. This momentum in intellectual resistance in civil society became too widespread for the regime to control, and political reform was inevitable. It is my assessment that business played an important role in supporting

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these developments through seminars, research reports, internal company training, public discussions and direct representation to government.

Apartheid came to an end in 1990 and in the new democratic dispensation that evolved after 1994, business played a prominent role in the evolution of social dialogue and the formation of the National Economic Development and Labour Council (NEDLAC). The Council has been the outcome of several developments and the efforts of various institutions that contributed to the 'building of social capital in South Africa' (p. 67). NEDLAC was a negotiating organisation that provided the social economic partners 'an independent space ... to develop a common vision on the way forward' (p. 81). The different partners in NEDLAC were government, business, labour and civil society. This negotiating forum played an important role in policy formulation and governance, particularly during the early years of the new democracy as is discussed in detail in chapter 4. NEDLAC suffers from several deficiencies as discussed by the authors and in its present format it has become ineffective in serving good governance. Moreover, within the framework of a governmental state, consultation and negotiation are not featuring prominently. More importantly, under the governmental state we have experienced a polarisation of society and increased tension between the NEDLAC partners that, eventually, revealed a trust deficit. These circumstances encouraged the idea of achieving social cohesion through a social compact. Although an effective social dialogue in this country is imperative, the social cohesion has deteriorated. The large trust deficit between social partners that developed under the developmental state regime resulted in 'many destructive attacks on certain stakeholders, which seem to reflect a visceral hostility towards them' (pp. 82–83). This does not bode well for achieving a social compact. The National Development Plan (NDP), although showing sympathy for the idea, formulated the conditions that are required to achieve a social compact successfully. These conditions are unlikely to be met in the present South Africa. Nevertheless, the authors show some sympathy in favour of a social compact, particularly in reference to the positive assessment by Ramaphosa in addressing this subject in 2013 (pp. 168–171).

The particular features of a social compact as it originated in Ireland and the Netherlands – as consensus-based economic policymaking, driven by a tri-party cooperation between government, representatives of employers' organisations and representatives of labour unions – is somewhat different from the perceptions outlined by Ramaphosa in the quoted reference above. European policy negotiation has a long-established well-functioning infrastructure to secure effective negotiations with scientific backing to evaluate the feasibility of competing proposals. South Africa has a long way to go towards establishing such an integrated support system. Furthermore, the South African envisaged procedures include civil society, or non-governmental organisations, as a participant together with government, business and labour.

Civil society is likely to complicate a consensus outcome owing to its inability to define mandates. Moreover, civil society is not in a position to commit itself to attain certain policy tradeoffs because it lacks leverage in achieving the agreed values of policy parameters. We do not share the optimistic outcome regarding a social compact in this country.

Democracy and the developmental state

The post-1994 period saw far-reaching changes in policymaking and governance. Nelson Mandela emphasised reconciliation and relied on the mutual spirit of cooperation in business and civil society to promote support for positive nation building. This 'social capital' was rapidly spilt by successive ANC governments after Mandela. The 'cordial bilateral' (p. 97) between government and business started slipping and gradually organised business lost its influence in policymaking. Owing to difficult economic circumstances and the relatively poor economic performance of small and medium-sized enterprises, organised business polarised. In certain instances the division followed racial and social differences while in others it appeared to be big versus small business.

The revival of economic growth became an important priority and the period following Mandela was characterised by analyses and growth-enhancing programmes. The most successful was the Growth, Employment and Redistribution Strategy (GEAR) that replaced the Reconstruction and Development Programme (RDP) which merely comprised a wish list without a policy strategy. Despite the criticism from the political left against its so-called neoliberal policy stance it, apparently, successfully improved the country's growth performance. Real gross domestic product (GDP) growth exceeded 5% p.a. during the mid-2000s. The alliance partners of the ANC government were increasingly uncomfortable with these market-friendly policies of the GEAR programme. Government policies started shifting in favour of a developmental state. The lack of delivery capacity of the developmental state became evident at an early stage owing to the collapse of electricity supply in 2008 by ESKOM, the governmental-controlled monopolistic electricity supplier. This was a hard blow to the economy as it had already entered a recession in 2007. The situation was aggravated by the great international economic recession of 2008–2009.

Jacob Zuma was elected as President in 2007 and owing to the pressing economic circumstances at the time there was extensive collaboration between government, labour and business to support economic recovery. Initially Zuma showed preparedness to encourage social dialogue within NEDLAC (p. 102). This was confirmed by the release of the National Planning Commission's NDP. This was an ideology-free policy document with an extensive analysis of the present state of the economy, coupled with policy proposals over a visionary period to 2030. The NDP was accepted as a policy document

by government. Later on it appeared to be merely an act of tokenism. The NDP was not acceptable to the ANC and its alliance partners in government. As opposed to the vision of the NDP, the developmental state became entrenched in policymaking. Extensive interventionist policies followed in the areas of employment equity, Black Economic Empowerment (BEE) requirements and business charters. Certain black business chambers started acting as developmental agents for government (p.104). The developmental state and its transformation agents appeared to be a highway towards corruption and political patronage. This process gained momentum under Zuma's regime and eventually resulted in state capture. These developments were engineered through the destruction of many South African democratic institutions. The processes of checks and balances of a democratic system were eliminated or simply overruled.

The destructive effects of the developmental state on the economy and society necessarily alienated business from government. Moreover, government created the impression that the developmental state prefers policymaking without consultation. Furthermore, some business chambers were accused of being 'untransformed' and to be excluded from consultation (p.104).

Unfortunately, several private sector businesses became linked to state capture through shady deals with government. This sad state of affairs was aggravated by a deterioration in good corporate governance in private companies. The downfall of Steinhoff in 2018 was probably the most visible example.

It appears that the ANC government's developmental state has failed South Africa. The economic performance has deteriorated badly owing to destructive interventionist policies. Unemployment is running at an historically high level, poverty has increased while the provision of basic community services is in poor shape as the management in most municipalities is falling apart. The public corporations (state-owned enterprises) are virtually bankrupt and rely heavily on government financial bailouts. The public debt, therefore, escalated and appears to be without bound. South Africa is failing international performance criteria (see Annexure 4, p. 203). The country has successively been downgraded by international credit rating agencies during recent years. The dysfunctional school education system is wasting the South African youth dividend as it has deteriorated to one of the worst on the African continent.

The political elite enriched themselves through state capture while benefitting from lucrative state contracts. Furthermore, politically well-connected elites benefitted from interventionist policies such as BEE that appeared to be extensions of the developmental state. It is not surprising that the unequal income distribution deteriorated to one of the world's worst.

Civil society and the media, particularly through the contribution of investigative journalism have united in the

public outcry against the failure of the developmental state and its state capture. In these actions organised business did not feature prominently, owing to particular developments, as explained by the authors and summarised above. This outcome is contrary to the resistance to the apartheid regime where business featured as a prominent participant and in many instances took a leading position in the resistance.

My assessment of the evidence is that the ideology-based apartheid regime has failed South Africa. Resistance from business, civil society and the media, together with international sanctions, contributed towards bringing the regime to an end. The country entered a new democratic era in 1994 with high hopes of an inclusive participation in the economy, reconciliation, poverty reduction, a more equal distribution of wealth while benefitting from international trade in terms of an open economy. These high hopes vanished on the horizon as the ANC government opted in favour of an ideology-based socio-economic order namely the developmental state which virtually had no delivery capacity. Owing to extensive resistance by civil society and clever political intervention, Jacob Zuma resigned. The appointment of President Ramaphosa is expected to bring new hope to a divisive society.

The future

The election of President Ramaphosa as the new leader of the country is hopefully signaling a 'new dawn' for the country, as he himself formulated the new beginning. Unfortunately, this new dawn is presently covered by a dark cloud as the ANC's developmental state is preparing a destructive stab at two of our precious democratic institutions. The one is the proposed amendment to the constitution to secure land expropriation without compensation, the other is the proposed nationalisation of the Reserve Bank with a view to terminate the independence of the Bank in financial supervision and the conduct of monetary policy.

In 1994 we moved forward by abandoning the ideological-inspired apartheid regime. In 2018 we face a similar choice: abandoning the ideological-based developmental state. The authors do not go that far but they unequivocally argue in favour of substantial change. In this respect proposals are made for the active participation of business in economic policy deliberations. In a similar vein several well-considered proposals for economic reform are made. This confirms the fact that change is not going to be easy. There is no single miraculous solution. One has to do many things simultaneously. This applies equally well to government, labour and organised business. There is, nevertheless, an important barrier in implementing such reforms. As long as South Africa is committed to a developmental state there is little scope for an effective and sustainable cooperation between government and organised business. My reading of the authors' proposals is that business should embrace whatever scope there is to prevent the continuation of the marginalisation of business in policy and planning circles in this country.

Conclusion

The book under review is an important contribution to the political economy literature. It analyses the role of business in the South African struggle for freedom and democracy. The outcome is that it was not always as visible as we would have preferred it to be. Business played a prominent role in the resistance to the apartheid regime as part of the revolt in civil society. The high expectations of a new less divisive country, with inclusive institutions that ensure a more equal distribution of wealth under Nelson Mandela, were harshly

destroyed by the ANC government's ideology-based developmental state. Owing to particular circumstances, business was less visible in civil society's revolt against this system that failed South Africa. The country is most probably facing the possibility of a new beginning. The authors outlined the challenges of political reform and the conditions for securing sustained economic recovery and the imperative of active participation by organised business in achieving such outcomes. My assessment is that such positive outcomes are only within reach outside the institutional framework of a developmental state.