Can economic policy escape state capture?

By Mark Swilling

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An attack from within by fellow citizens (without a civil war), is worse than an attack by the enemy outside. Mark Swilling shows how this was done in his book, "Shadow State: The Politics of State Capture".

State capture by shadowy elites has profound implications for state institutions. It destroys public trust in the state and its organs, it weakens key economic agencies that are tasked with delivering development outcomes and it erodes confidence in the economy.

When there is no trust in public institutions there is little incentive to pay tax, large companies sit on cash rather than reinvest profits towards productive use, criminality proliferates, exploiting weaknesses in intelligence and crime enforcement authorities, and both capital and skills flee the country. The majority of South Africans are bearing the brunt of these corrosive developments.

Various studies, including *Shadow State: The Politics of State Capture* by myself and colleagues, have documented the systematic repurposing of state institutions by the Zuma-centred power elite after 2009. These premeditated and coordinated activities were designed to enrich a core group of beneficiaries, to consolidate political power and to ensure the long-term survival of the rent-seeking system that was built by this power elite. To this end, a symbiotic relationship between the constitutional state and the shadow state was built and consolidated, with large chunks of it still intact and persisting into the Ramaphosa era.

At the nexus of this symbiosis was a handful of companies and individuals connected in one way or another to the Gupta-Zuma family network. However, as evidence from the Zondo Commission emerges, it is clear that this was not the only network in place – Gavin Watson's Bosasa network was also constructed. Both, however, depended on the repurposing of procurement procedures to benefit a particular network of unscrupulous business operators, politicians and officials. Decisions made within these corrupted nexus points were executed by well-placed individuals located in the most significant centres of state power (in government, State Owned Entities [SOEs] and the bureaucracy).

Former Deputy Minister of Finance Mcebisi Jonas was offered a R600 million bribe by those who operated in the totally secure knowledge they had protection from "Number 1". There was also a deep- seated racism at play: an underlying assumption that 'all blacks have their price'.

Crucially, we have no idea how many others accepted these kinds of unimaginably enormous bribes. Those who resisted were systematically removed, redeployed to other lucrative positions to silence them, placed under tremendous pressure, or hounded out by trumped up internal and/or external charges and dubious intelligence reports.

We argued in the *Shadow State* that the attempts by the Zuma-centred power elite to centralise the control of rents in order to eliminate lower-order rent-seeking competitors began in about 2012. The ultimate prize was control of the National Treasury, because this would give them control of the Financial Intelligence Centre, the Chief

Procurement Office (which regulates procurement and activates legal action against corrupt practices), the Public Investment Corporation (the second-largest shareholder on the Johannesburg Stock Exchange), and the power to issue guarantees (which was essential for making the nuclear deal work). The Cabinet reshuffle in April 2017 was the final step taken to take possible control of the National Treasury.

The capture of the National Treasury, however, followed four other processes that consolidated power and centralised control of rents: the ballooning of the Senior Management Service in the public service to create a compliant, politically dependent bureaucratic class; the routing of the good cops from the police and intelligence services and their replacement with loyalists prepared to cover up illegal rent seeking; redirection of the procurement spend of the SOEs to favour those who were prepared to deal with the networks of brokers associated with the Guptas and Gavin Watson; and the consolidation of the 'Premier League' as a network of party bosses to ensure that the national executive committee (NEC) of the ANC remains loyal because it is implicated in the flow of large amounts of cash to keep this political Ponzi scheme going.

At the epicentre of the political project is a rhetorical commitment to radical economic transformation. Unsurprisingly, although the ANC's official policy documents on radical economic transformation encompass a broad range of interventions that take the National Development Plan (NDP) as a point of departure, the Zuma-centred power elite has emphasised the role of the SOEs: Eskom because it is regarded as key to ensuring that the nuclear deal goes ahead, and Transnet because it is regarded as key to ensuring that the mining industry is captured.

In short, instead of becoming a new economic policy consensus, radical economic transformation has been turned into an ideological football kicked around by factional political players within the ANC itself and the Tripartite Alliance in general, who use the term to mean very different things. Crucially, radical economic transformation is used to give ideological legitimacy to what is essentially a political project to repurpose state institutions for the benefit of a power elite.

Three things need to happen if the crisis is to be resolved.

Firstly, the rent-seeking networks must be broken and dismantled. This will require political action within and outside the Tripartite Alliance. Zuma has been dislodged as the kingpin. However, this must be coupled with legal action to criminalise and bring the perpetrators of state capture to justice. To a large extent, the election of Ramaphosa as President marks a major political shift. A new Director of the NPA is in place, and a total of 28 major commissions, inquiries and investigations have taken place (with some ongoing, such as the Zondo Commission).

A total of 15 of these 28 investigations are related to the Gupta-Zuma network. This means 13 are related to other networks. We are flooded with information, but hardly any prosecutions. Instead, Ramaphosa's focus is on maintaining the unity of the ANC, while condoning the taking out of 'sore thumbs'. This will not go to the root of the rot in the ANC itself. To really regain the credibility of the ANC, Ramaphosa may well need to decide to act against many of its most important functionaries. Unity of the ANC plays into the hands of the 're-Zumafication' campaign.

The public protector's recommendation that a judicial commission of inquiry be established has now been implemented – this is the Zondo Commision. This is a major step forward, even though many in the ANC would prefer that it is closed down. It is, however, not enough. It will require bold action by the banking sector and the Reserve Bank to expose and shut down the financial mechanisms that the shadow state uses.

Secondly, a new national economic consensus is required. This has never been given serious attention. The short-lived post-1994 Reconstruction and Development Programme (RDP) developed by the presidency was unilaterally replaced in 1996 by the Growth, Employment and Redistribution (GEAR) policy – a framework developed by the Ministry of Finance and adopted without the approval of the Alliance partners.

A few years later the Accelerated and Shared Growth Initiative for South Africa (ASGISA) was also adopted. The economic policies inscribed in ASGISA also never enjoyed the full support of the Alliance partners, not least because the National Development Plan (NDP) is pessimistic about the future of manufacturing, saying virtually nothing about de-financialisation, and is vague when it comes to achieving employment-centred development in an environment where trade unions have policy influence.

The subsequent adoption of the New Growth Path did not improve matters, especially when this was interpreted by Malusi Gigaba, after he was appointed minister of public enterprises in 2010, as a licence to transform the governance of the SOEs.

While the external environment in the wake of the global financial crisis has certainly had adverse effects on South Africa's growth outlook, governance failures and policy uncertainty have inflicted the most damage. The promises made by the ANC to its Alliance partners after the final draft of the NDP was published, that there would be further efforts to strengthen the economic policies of the NDP, were never carried out.

In short, there has never really been a broadly shared and fully supported economic policy framework. Radical ››

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economic transformation is already a factional political football. One can speculate that a positive outcome of this political crisis would be the adoption, for the first time ever, of a new economic consensus that can unite the different factions of the Alliance by giving real substance to radical economic transformation while enjoying broad stakeholder support in the business community, labour sector and civil society. Without this, the power elite that formed around Zuma will be able to continue co-opting radical economic transformation in order to mask ongoing rent-seeking practices by manipulating SOE procurement spend. This is unlikely to crowd in private investment.

The nuclear deal was justified in terms of radical economic transformation, masking how Eskom's procurement system and the issuing of a sovereign guarantee will be used to effectively hand over the South African economy to (Russian) foreign interests. The nuclear deal is the ultimate 'big and shiny' capital-intensive project that reinforces the mineral-energy-complex, crowds out investment in the cheapest energy available (which is renewable energy), increases indebtedness to foreign lenders and, of course, benefits the cohort of rent-seeking corrupt insiders.

A new economic consensus will have to address the core challenge of investment. As argued in the *Shadow State*, after 1994 the combination of the shareholder value movement, Black Economic Empowerment and financialisation may have stimulated consumption-driven growth, but they redirected surpluses away from productive employment-creating investments.

The introduction of the 100 Black Industrialists Programme has diverted focus from implementing good industrial policy strategies. It would seem that the Black Industrialists scheme, as good as it looks on paper, has been poorly administered, with very little value created thus far.

Compared to its peers in the rest of the world, South Africa has, since 1994, been an anomaly. High returns on investment are usually associated with high investment levels, as is the case with China. In South Africa, returns on investment have been similar to those of China, but investment levels and therefore employment-creation rates, are low. This is partly the result of market concentration that gives large conglomerates more market power to extract higher margins than would have been possible in a more competitive environment, and partly caused by the fact that the business class, which remains dominated by white decision-makers, has a low level of confidence in the post-1994 democratic project.

The use of SOE procurement spend has tended to strengthen investment in large capital-intensive projects concentrated within the mineral-energy-complex. This reinforces a pattern of job-starved economic growth in an economy with one of the highest unemployment rates in the world (36% if non-job seeking economically active people are included). More people get welfare payments via the South Africa Social Security Agency (SASSA) i.e 17 million than the number of people employed (around 9 million). A total of 14 million South Africans are hungry.

What is really needed, therefore, is employment- and livelihood-creating investments across a wide spectrum of small and medium enterprises capable of absorbing large numbers of unskilled and semi-skilled workers. Although large corporations shed rather than create jobs, it is their CEOs who seem most influential during the Ramaphosa era. This is not a good idea – it is like asking the armaments industry to work out a peace plan. The new minimum wage of R3,500 pm is a good thing, but a Universal Basic Income Grant of R3,500 pm could have a much more radical impact and benefit more people.

Enterprise development needs to be supported by a proliferation of innovations that emerge from what are often referred to as 'triple helix' innovation networks (partnerships among enterprises, knowledge institutions and state institutions) that connect knowledge and market opportunities with investment flows and an enabling regulatory environment. The so-called 'Web 3.0' (or '4th Industrial Revolution') is key to success here. However, because macro-economic theory has never incorporated a theory of entrepreneurship, macro-economic policy in South Africa has not favoured enterprise development below the large-scale. Even if such a theory and policy did emerge, job-creating enterprise development cannot thrive if returns on financial assets remain the driving force of economic growth. State intervention will be required to de-financialise the economy and re-racialise venture capital.

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Innovative policy, which 'creatively destroys' to engender new forms of economic development, lies at the heart of truly inclusive economic growth. This kind of strategy can, however, only be realised if the financialisation of the economy is complemented by, for example, channelling more public funds through South Africa's well-developed development finance institutions, and redirecting the investments of these institutions away from blue-chip companies and capital-intensive projects into higher-risk employment and livelihood-creating enterprises located in both the private and non-profit sectors.

The third thing that is needed to enable resolution of the crisis is for all stakeholders, in particular the political actors who replace the Zuma-centred power elite in the future, to commit to realising the vision of a new economic consensus within the framework of the Constitution and relevant legislation.

The recent trend towards regarding the Constitution and the rule of law (such as the Public Finance Management Act) as an obstacle to radical economic transformation is dangerous, and must be stopped. Transformation is perfectly compatible with the Constitution and consistent with respect for the judiciary. Indeed, without this, the trust required for 'triple helix'-type employment- and livelihood-centred economic development will not materialise.

That said, so-called 'Re-Zumafication' is a distinct threat. The Russian-backed nuclear deal was at the centre of the political project of state capture. Don't ever underestimate the Russians. Just because the Ramaphosa government has shunned the nuclear deal does not mean the Russians have given up on the idea. The global power stakes are far too high. Russia's Putin signed a decree in 2007 that provided for the integration and consolidation of all nuclear capabilities built up during the Cold War into a new civilian nuclear industry with global ambitions. Since then, Russians have been building nuclear power plants that are a hybrid between an embassy and a military base, often financed off a state guarantee that effectively gives Russia massive leverage over the host country. The contract that Zuma and Putin signed in 2014 – ruled illegal by the High Court in 2017 - was about Russia building a South African nuclear fleet. This, of course, was to be funded from loans generated from a state guarantee that both Pravin Ghordan and Nhlanhla Nene refused to sign which is what cost them their jobs. If either had signed, South Africa would have become another Russian-controlled failed state held together with violence and fear.

Shortly before Zuma resigned I argued in the *Daily Maverick* that the 'Zexit' was being delayed so that the nuclear deal could be finalised. We also know for sure now that old apartheid intelligence officers (like Neil Barnard) were working for the Zuma Presidency, and that Russian intelligence officers were also involved. Don't forget: Zuma appointed himself Chair of the Ministerial Committee on nuclear procurement. There is now more than enough evidence to suggest the Russians want Ramaphosa out of the way so that the nuclear deal can be implemented.

Furthermore, Zuma has returned to his KZN base where he knows how to use violence and fear as a weapon to secure national power positions – after all, this was why Mandela brought him into the NEC, and why Mbeki had to bring him in as Deputy President. When Zuma used that famous television interview before he resigned to subtly threaten increased violence if he was displaced, all he did then was to voice publicly what he'd always done within the secretive cloak-and-dagger world of ANC leadership struggles.

It is time to recognise the need for truly innovative and radical interventions that will cut to the very root of our structural contradictions. It is quite simply impossible to grow an economy if 36% of the population do not have enough money to stay above the poverty line. Returns on financial assets are declining, which means we must finally accept that financialisation has runs its course. Entrepreneurship of various kinds is key to success, but not if Development Finance Institutions cannot find ways of supporting them through the failures that are the key to success. Capital deepening via infrastructure spending without job-creating growth is fruitless. And the transition to renewable energy holds the key to the next phase of South African industrialisation. None of this is rocket science. But it does mean removing the blinkers that have limited our economic vision over the past 25 years. NA