Confessions of an Unreconstructed Neo-liberal Fundamentalist: A Plan for South Africa

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Presentation at the FMF
18 July 2012
In this presentation

+ A what?
+ Communism’s fatal flaw
+ Plans galore
+ Other interference
+ My plan for SA
Who is Jeremy Cronin?

- Deputy minister of Transport and NEC member of the ANC
- SACP: deputy general secretary

So I guess he is a communist...

A revolutionary socialist: for a classless, moneyless, and stateless social order structured upon common ownership of the means of production.
Communism’s fatal flaw

+ Where are the surpluses?
+ Vladimir Ilyich Ulyanov’s ideas
+ Stalin’s 5 year plans
  + Polit(ical)buro
    + Countries with politburo’s:
      + China, N-Korea, Laos, Vietnam, Cuba
  + Allocation of resources
+ The wonder of prices
+ How to make coffee
SARS – South African Road to Socialism??

5 year medium-term vision - Broadly Marxist-Leninist

Strong state

Ban labour brokers

DA = Anti-majoritarian liberalism

Support “National Democratic Revolution”

= Social needs above private profits

PLAN

• Job creating investments
• Skills training
• Development of “forces of production”
• Elimination of compradorist parasitic corrupt tendencies (BEE)
• Contribution to strategic industrial policy

CAPITALISM

• Blamed for the financial crisis
• Destroys environment
• Leads to urban slums
• Destroys rural livelihoods
• Leads to financialisation, monopolisation, globalisation

Remember the origination of the SACP:
CPSA 1921 – “Workers of the world, unite and fight for a white SA”
1950 – Banned
1953 – Re-launched as SACP

Zwelinzima Vavi, General Secretary of COSATU, July 13 2012:
“The formation of the Communist Party of South Africa in 1921 was also a great victory for non-racialism.”
Who caused the great recession?

Interest rates too low for too long → low inflation → bubble

Too “accommodative” fiscal policy → unsustainable state debt

Other interference: Freddie, Fannie

THE GREAT RECESSION

AUSTERITY =

THE END OF SOCIALISM
According to Neo-liberal:

- "New public management approach" =
  - Ethics vs. delivery
  - Professional leadership vs. generic corporate leadership
  - Professional / vocational incentives vs. monetary incentives
  - "Fragmenting" corporate structures (board, CEO, head office)
  - "Doing" vs. "purchasing"

- Obsession with growth
- "The free market"
- Citizens reduced to consumers
- The State vs. civil society (individual freedom)
Individual property rights: very broad definition!

- Right to life
- Right to property – material & not
- And more...
- Right to movement
- Right to contractual agreements
- Right to trade
- Freedom – limited by others’ freedom
- Economic policy – should reflect this
A few players...

The ANC

The ANC youth league

The DA

The SACP

COSATU

The SADC
Policy

PARLIAMENT

GOVERNMENT

“PLANNING” DEPARTMENTS

3 x PLANNING DEPARTMENTS & FINANCE
The Collection:

- REDISTRIBUTION AND DEVELOPMENT PROGRAM
- GROWTH EMPLOYMENT AND REDISTRIBUTION FRAMEWORK
- ANTI POVERTY STRATEGY
- COMPREHENSIVE AGRICULTURAL SUPPORT PROGRAM
- FREEDOM CHARTER
- INDUSTRIAL DEVELOPMENT ZONES
- INDUSTRIAL POLICY ACTION PLAN 1
- INDUSTRIAL POLICY ACTION PLAN 2
- NATIONAL INFRASTRUCTURE POLICY FRAMEWORK
- NATIONAL HEALTH INSURANCE
- NATIONAL YOUTH DEVELOPMENT POLICY
- NEW GROWTH PATH
- RECAPITALISATION AND DEVELOPMENT PROGRAM
- SCHOOLING ACTION PLAN TO 2014
- SPECIAL ECONOMIC ZONES
- THE ANC YOUTH LEAGUE AGENDA
- THE SOUTH AFRICAN COMMUNIST PARTY 5 YEAR PLAN
- NATIONAL SECURITY STRATEGY
- THE PUBLIC WORKS PROGRAM
- INTEGRATED RESOURCE PLAN 1
- INTEGRATED RESOURCE PLAN 2
- ANTI POVERTY WHITE PAPER
- SOCIAL TRANSFORMATION DISCUSSION DOCUMENT
- COMPREHENSIVE SCHOOL BUILDING PROGRAM
- THE STRATEGIC INDICATIVE PLAN FOR THE ORGAN
Institutions

The Industrial Development Corporation (IDC) is a self-financing, state-owned national development finance institution that provides financing to entrepreneurs and businesses engaged in competitive industries.

The Competition Commission is a statutory body constituted in terms of the Competition Act, No 89 of 1998 by the Government of South Africa empowered to investigate, control and evaluate restrictive business practices, abuse of dominant positions and mergers in order to achieve equity and efficiency in the South African economy.

The Competition Tribunal has jurisdiction throughout South Africa and adjudicates competition matters in accordance with the Competition Act (Act 89 of 1998). While the Commission is the investigation and enforcement agency, the Tribunal is the adjudicative body, very much like a court.

Khula is a state-owned development finance institution that was established in 1996 to facilitate access to finance for Small, Micro and Medium Enterprises (SMMEs), by providing finance, mentorship services and small business premises. It is the government’s flagship Development Finance Institution (DFI) for small business. The organisation acts as a complementary financial institution that bridges the financing gaps not addressed by the commercial financial institutions.

ITAC, the International Trade Administration Commission of South Africa, was established through an Act of Parliament in June 2003. The aim of ITAC, as stated in the International Trade Administration Act 71 of 2002, is to foster economic growth and development in order to raise incomes and promote investment and employment in South Africa and within the Common Customs Union Area by establishing an efficient and effective system for the administration of international trade.

The South African Micro-Finance Apex Fund (samaf) is a wholesale funding institution formally established in April 2006. It is a trading entity and is governed by the Public Finance Management Act (PFMA) of 1999.
ANC national policy conference

"Conference has agreed and reaffirmed that despite major achievements, the structural legacy of Colonialism of a Special Type including patriarchy, remain deeply entrenched. This is reflected in the colonial, racist and sexist structure and character of our economy and development."

"As an anti-imperialist organisation, the ANC will continue using its progressive internationalism and solidarity as a prism through which it looks at the world."

"The ANC is a unique organisation. We are the only organisation in this country which takes policymaking so seriously as to dedicate so many days and effort to it."

"1962 - SACP"
“The financial crisis raised questions about the workings of the economics profession, our increasing concern about corruption in government.”

"Financial institutions at the moment have turned into really greedy monsters who want to chase profit at any cost."

“We are still recovering from the recession. We have lots of pressures, both to ensure that public servants are reasonably paid but also to deliver important services ... and ... infrastructure. We hope the negotiations will work towards a positive end”

“...we are not there yet”
The National budget...yet another plan!

In short:
- Higher & more taxes
- Less social emphasis
- More capital emphasis
- Lower deficit & debt
- Bigger state

On Taxes:
- Too many taxes – over 100
- No PIT relief!
- Carbon tax
- Tax incentives for savings
- Withholding tax 10-15%, CGT up, Fin transactions tax
- Small comp tax down
- SEZ tax incentives
- Fuel 20 cents, RAF 8 cents
- Sin taxes up
- Ad valorem, planes 7%, boats 10%

On Spending:
- Sanral R5.7bn, NHI R1bn, 14 years, Payroll, VAT, PIT
- Wages limit 5%
- Landbank R1bn, Denel R0.7bn, Sentec
- More for “job creation”, R77.8bn over MTEF
- Social spending 58%

On Capital:
- Huge capital expenditure, 43 projects, R3.2 trillion!! : 100% GDP!!
- Funding fiscus, SOE balance sheets
- Rail
- Harbours

Other stuff:
- SEZ Privatisation!!
- Procurement officer
- New bonds – CPI linked
- On savings/dissaving
- Emphasis on “growth” (less focus on social expenditure)
- Fiscal numbers projected positively – keep credit rating agencies happy
Taxes & Levies

- Air passenger tax
- ACSA Passenger service charge
- ACS Passenger Charge
- Air Traffic and Navigation Services charge
- Fuel Surcharge
- International Departure tax
- Insurance
- SA Civil Aviation Authority safety charge

- Capital Gains Tax
- Carbon Tax
- Corporate Income Tax
- CPI Bond Taxation
- Donations tax
- Dividends Tax
- Provisional Tax
- Securities Transfer Tax
- Stamp Duty
- Secondary Tax on Companies
- Transfer Duty
- Turnover Tax
- Uncertificated Securities tax

- Customs Duties
  - Ad Valorem Excise Duty Products
    - Live animals & Animal Products
    - Vegetable Products
    - Animal or vegetable fats and oils and the cleavage products
    - Prepared foodstuffs
    - Beverages, Spirits and Vinegar
    - Tobacco
    - Mineral products
    - Products of the chemical of allied industries
    - Plastics and articles thereof
    - Rubber and Articles thereof
    - Raw hide skins, Leather, fur skins and articles thereof
    - Wood and articles of wood
    - Wood charcoal
    - Cork and articles
    - Pulp of wood or of other fibrous cellulosic material
    - Recovery textiles and textile articles
    - Footwear, Headgear, umbrellas, sun umbrellas, walking sticks
    - Articles of stone, plaster, cement, asbestos, mica or similar
    - Natural and cultured pearls, precious or semi-precious stones
    - Base metals and articles of base metals
    - Machinery and mechanical appliances
    - Electrical equipment
    - Vehicles, aircraft, vessels and associated transport equipment
    - Optical, photographic, cinematographic, measuring, checking, 
      Arms and ammunition, Parts and accessories thereof
    - Miscellaneous manufactured articles
    - Works of art, collectors pieces and antiques
    - Not assigned

- Estate Duty
- Excise duties & Levies
  - Ad Valorem Excise Duty Products
    - Electronic Equipment
    - Motor Vehicles

- Permanences
- Excise Levies
- Certain types of plastic carriers and flat bags
- Diamond Export Levy on unpolished diamonds exported from RSA
- Electricity generated by using non-renewable fuels & environmentally hazardous fuels
- Electric Filament Lamps
- Environmental Levies
- Fuel Levy on petroleum Products
- Motor Vehicle Carbon emission levels (to be implemented soon)
- Road Accident Fund (RAF) Levy on Petroleum Products

- Specific Excise Duty Products
  - Fuel / Petroleum Products
  - Malt Beer
  - Other Fermented Beverages
  - Spirits / Liquor Products
  - Tobacco Products
  - Traditional African Beer
  - Wine

- Income tax
  - Pay As You Earn Tax
  - Skills Development Levy
  - Unemployment Insurance Fund
  - Mineral & Petroleum Resource Royalty
  - Municipality Levies
    - Electricity
    - Property rates
    - Water
    - Waste water Management
    - Waste management
  - Property Tax
  - Retirement Funds Tax
  - Sin Taxes
    - Alcohol Products (Beer & Spirits)
    - Tobacco
  - Value Added Tax

Other Levies paid to governmental institutions

- Adoption
- Citizenship
  - Citizenship by birth / descent / naturalisation / registration
- SABC TV Licenses
- Death Certificates (Abridged & Unabridged)
- Driver Licenses
  - Learners License application
  - Learners License
  - New Driver’s License application
  - Driver’s License
  - Driver’s License renewals
  - Car License applications
  - Car license renewals
  - Car roadworthiness
- Home Affairs Levies
  - Birth Certificates (Abridged & Unabridged)
  - Amending Birth Register of a child born out of wedlock

Identity documents

- Application & ID
- Carding as a minor
- Reissuing an ID
- Issuing of passports
- Appearances in court
- Mental Health
- Congregational
- Reappearance of birth gender or place of birth in birth register

- Immigration
- Refugees
- Asylum
- Visa
- Work Permit

THE LIST
The big guns

Industrial Policy Action Plan
February 2010
Department of Industry and Trade

The New Growth Path
23 Nov 2010
Economic Development Department (EDD)

The National Development Plan
11 Nov 2011
National Planning Commission
1st NIPF (National Industrial Policy Framework) = non-implementable wish list

- Diversification beyond current reliance on traditional goods and services
- "Movement towards a knowledge economy"
- Promotion of a more labour-absorbing industrialisation path
- Increased participation of historically disadvantaged people and marginalised regions
- Contributing to the industrial development of the African continent

2nd IPAP (1) 2007/08 = will need more…

"Building on the successes of our industrial policy interventions, a scaled up Industrial Policy Action Plan will be developed"

3rd IPAP (2) 2010/11 = rolling 3 years, revising annually

"The one-year IPAP is too short a period and future IPAPs will be for a three-year rolling period, updated annually and with a 10-year outlook on desired economic outcomes"

- Competition Act
- Automotive sector
- Clothing and Textiles industry
- Investments in Business Process Services
- Job creation
- Lowering of certain import tariffs
- Energy-efficiency standards
New growth path:

“This document reflects Government’s commitment to prioritising employment creation in all economic policies. It lays out strategies to enable South Africa to grow in a more equitable and inclusive manner in the future, fulfilling the promise of our democracy.”

“The centrepiece of the new growth path is a massive investment in infrastructure and people through skills development, together with smart government and better coordination with the private sector and organised labour so that we can achieve our national goals.”

“The key challenge will be that of implementation and we are frank about the need for a more coordinated and effective state. We have too many agencies and too little coordination between them.

We can only achieve our jobs targets if the state performs better and if the private sector grows in labour-absorbing parts of the economy. The growth path proposes ways to achieve that.”
Education spend comparison 2008/09

- Russia
- Australia
- Germany
- US
- UK
- Belgium
- Denmark
- Indonesia
- Brazil
- SA
- Botswana
- Uganda
- Egypt

Adult literacy rate vs. Education spend: GDP
Trevor Manuel is an ANC NEC member and Minister in The Presidency

“It will require re-balancing and realignment of key areas of government policy alongside some re-prioritisation in economic policy”

“We need to involve employers and trade unions. We need particular points of focus such as school-to-work and university-to-work transitions”

“We need to hear what it will take to significantly increase the integration of young people into employment. We hope employers will not see the provision of jobs as a burden but as a great opportunity”
CREATE JOBS

- Create 11 million more jobs by 2030
  - Expand the public works programme
  - Lower the cost of doing business and costs for households
  - Help match unemployed workers to jobs
  - Provide tax subsidy to businesses to reduce cost of hiring young people
  - Help employers and unions agree on starting salaries
  - Make it possible for very skilled immigrants to work in South Africa
  - Make sure that probationary periods are managed properly
  - Simplify dismissal procedures for performance or misconduct
  - Take man-hours earning above R300 000 out of the CCMA process

BUILD A CAPABLE STATE

- Fix the relationship between political parties and government officials
- Make the public service a career of choice
- Improve relations between national, provincial and local government
- Boost state-owned enterprises to help build the country
- Professionalise the police and criminal justice system

FIGHT CORRUPTION

- Centralise the awarding of large tenders or tenders that go for a long time
- Take political and legal steps to stop political interference in agencies fighting corruption
- Set up dedicated prosecution teams, specialist courts and judges
- Make it illegal for civil servants to run or benefit directly from certain types of business activity

TRANSFORM URBAN AND RURAL SPACES

- Stop building houses on poorly located land and shift more resources to upgrading informal settlements, provided that they are in areas close to jobs
- Improve public transport
- Give businesses incentives to move jobs to townships
- Fix the gap in the housing market by combining what banks have to offer with subsidies as well as employer housing schemes
- Give communal farmers, especially women, security of tenure
- Put money into irrigation in Makatini Flats and Umzimvubu River Basin
**EDUCATION AND TRAINING**

- Develop a nutrition programme for pregnant women and young children, to be piloted by the Department of Health for two years
- Make sure all children have two years of pre-school
- Get rid of union and political interference in appointments and appoint only qualified people
- Increase teacher training output by expanding “Funza Lushaka” to attract learners into teaching, especially those with good passes in maths, science and languages
- Regularly test teachers in the subjects they teach to determine level of knowledge and competence. Link teacher pay to learner performance improvements
- Good schools should not be burdened with the paperwork that poor performing schools have to do to improve. Schools performing very poorly should receive the closest attention
- Change the process of appointment of principals and set minimum qualifications
- Gradually give principals more powers to run schools, including financial management, procurement of textbooks and other educational material, as well as hiring and firing educators
- Increase the number of university graduates and the number of people doing their doctorates
- Build two new universities in Mpumalanga and the Northern Cape
- Build a new medical school in Limpopo and a number of new academic hospitals
- Consider extending the length of first degrees to four years on a voluntary basis
- Provide full funding assistance covering tuition, books, accommodation and living allowance (in the form of loans and bursaries) to deserving students
- Grant seven-year work permits to all foreigners who graduate from a registered South African university

**TRANSITION TO A LOW-CARBON ECONOMY**

- Speed up and expand renewable energy and waste recycling, and ensure buildings meet energy-efficient standards
- Set a target of 5 million solar water heaters by 2030
- Introduce a carbon tax
- Scale up investments and R&D for new technologies

**EXPAND INFRASTRUCTURE**

- Invest in a new heavy-haul rail corridor to the Waterberg coal field and upgrade the central basin coal network
- Enable exploratory drilling to see whether there are viable coal seam and shale gas reserves, while investigations continue to make sure that operations do not damage the environment
- Move Eskom’s system operator, planning, power procurement, power purchasing and power contracting functions to the independent system and market operator?
- Closely regulate the electricity maintenance plans of large cities
- Set up an investment programme for water resource development, bulk water supply and wastewater management this year, with reviews every five years
- Fix and build transport links, in these key areas:
  - Upgrade the Durban-Gauteng freight corridor and build a new port at the old Durban airport site
  - Expand the coal, iron ore and manganese lines. Build the N2 road through the Eastern Cape
  - Upgrade the Sishen to Saldanha iron ore line and expand capacity on the manganese line (including port capacity)
- Improve and cut the cost of internet broadband by changing the regulatory framework
ANC youth league ideology:

“Economic freedom in our lifetime” – Zuma, Malema

Libertarian term!

- Nationalisation (without compensation)
  - Mines
  - Land
  - Nationalisation’s fatal flaw
1. Track and publish the relative inflation rate on items consumed by poor South Africans
2. Change the way the fuel price is calculated
3. Re-write the electricity pricing strategy to mitigate price increases
4. More resources for the competition authorities to stop anti-competitive behaviour in the retail value chain
5. Change the way Metrorail operates to enable lower prices
6. Improve the food-export regulatory framework to provide better information on our key food stocks
7. Use the strategic petroleum reserve to smooth out the short term impact of rising oil prices
8. Liberalise the liquid fuels industry to encourage competition and efficiency
OTHER INTERFERENCE IN THE ECONOMY; SOE ET AL
SOE’s and Public entities

Energy and mining
- Eskom
- Pebble Bed Modular Reactor
- Alexkor

Manufacturing
- Denel
- Safcol
- Broadband Infraco

Transport
- SA Airways
- Air Traffic and Navigation Services Company Limited
- Transnet
- SA Express Airways
- ACSA (75.8% state-owned)
- PetroSA

Telecommunication
- Telkom (39% state-owned)
- Broadband infrastructure company (Pty) Ltd
- Sentech
- The South African Post Office

Broadcasting
- SABC
MY PLAN FOR SA
Stop digging – do less!
- Monetary
- Fiscal
- Labour
- Trade
- SOE
- Infrastructure
Monetary Policy

+ The theory
  + No central bank
  + Allow banks to issue own money
  + Gold
  + Other standards
  + Barter
  + Exchange rate
In practice

+ Positive real interest rate
+ CPI targeting
+ Monetary Aggregates targeted
My proposal

Evidence:

Adjustments

- Inflation point target 2% - no range
- More emphasis on monetary aggregates
- Reduce credit regulations
- Real interest rates
Fiscal Policy: Revenue

The theory

Poll tax

"Now do you see the point of the Poll Tax?"
In practice

Revenue - Requirements:
- Fair
- Cost effective
- Neutral
- Equality
  - Absolute - amount
  - Relative - %
  - Progressive scales

No basis in philosophy

Tax revenue by main source
2010/11

- PIT 34%
- CIT 20%
- VAT 27%
- STC 4%
- Fuel levy 5%
- Other 7%
- Customs and excise duties 4%
Fiscal Policy: Revenue

The Basics:
- Remember, only individuals always pay all taxes!
- Neutrality [no (dis)incentives] very important – allocation of resources!
- Overall tax regime: fewer taxes!
- Simplify - flat tax regime

My Proposal:
- PIT
  - 3 income categories – progressive
  - No deductions (savings, medical, rebate)
- Consumption tax/indirect tax: VAT
  - Increase 20%?
  - No zero rated items – exports?
- CIT
  - Lower 20%?
  - Flat (no exceptions - small)
  - Scrap dividend tax
- Sin taxes – this is a difficult one for me!
- User charges
- CGT

"...and that, in simple terms, is the new, proposed tax reform plan."
Fiscal Policy: Expenditure

The theory

- Only Primary – emphasis on property rights!
  - Defense
  - Law and order
  - Judiciary
  - Maybe infrastructure on collective goods?
Fiscal Policy: Expenditure

In practice

- Defense
- Law and order
- Judiciary
- "Infrastructure"
  - Physical
  - Human (education, health)
- "Developmental state" now this is where things go wrong...
Auditor General’s report: Very concerned!
My proposal

- Defense
- Law and order
- Judiciary
- Infrastructure
  - Transport
  - Export
  - Technology

Social expenditure

- Safety net
  - BIG?
  - Means test – I have changed my mind!
- Education
  - More autonomy for schools
  - Labour unions a big problem!
  - 12 vouchers only!
- Health
  - Convert departments into a huge medical fund
  - Privatise all facilities
- Housing
  - None!
  - Give state land away

"The problem with socialism is that eventually you run out of other people's money"
Fiscal Policy: Deficit/debt

The theory
+ No deficit or debt

In practice
+ 3% deficit
+ 60% debt
+ 60%: GDP debt (interest rates at 5%) – interest rates at 10% max 30%:GDP (SA unsustainable?)
My Proposal

+ Independent fiscal board
+ No primary deficit
+ 1% surplus over cycle
+ VAT
+ Debt falls!
+ My proposal
  + Mainly legislative changes
  + Youth wage subsidy
    + DA support
    + Youth league support
    + Government support
    + COSATU against
    + ANC ?
Labour Policy

SA Unemployment

Labour productivity and cost

- Labour productivity in the non-agricultural sectors
- Nominal unit labour costs in the non-agricultural sectors
+ Should be no limits
+ WTO
+ Protectionism
+ SA target certain products – pick champions
Proposal

- Energy
  - Eskom/NERSA increases (the elephant in the room)
  - Mining (ownership issues)
- Transport
  - Road, rail
  - Toll roads (ANC no, COSATU no, DA no, Government yes)
- Telecommunication
At the end of the day...

We all want a better SA

Perhaps it’s time to trust South Africans

So, let’s set them free, and trust the Markets
Thank You...

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