

Review

Trick or Treat: Rethinking Black Economic Empowerment (Jacana, Johannesburg 2010)

Jenny Cargill

Reviewed by Nicolas Pons-Vignon

Jenny Cargill's book offers a wealth of information on the origins and inner workings of Black Economic Empowerment (BEE) an expression that refers to a complex financial architecture aimed at facilitating the debt-funded transfer of shares of South African companies to black individuals or groups of individuals. The extensive experience of the author in 'transformational investment' both as an observer in BusinessMap and as an adviser, treats the reader to countless anecdotes and some insights. The main three could be summarised as follows:

- 1) Because BEE is debt-financed, and concerns *all* companies, a very large part of BEE investments are not profitable. This is because not all companies offer good investment opportunities, and because reimbursing debts with interest reduces even further the scope for profitability:
- 2) The very way in which BEE has been structured has acted as an incentive to multiply deals rather than to become involved in the actual running of the businesses in which equity has been acquired. This leads to a non-committal behaviour from new black capitalists who from this point of view could be called debt-funded rentiers:
- 3) This situation has worsened with the drafting and adoption of BEE Codes, prompting a narrow focus on compliance in spite of their stated aims. The performance of BEE is therefore on the whole

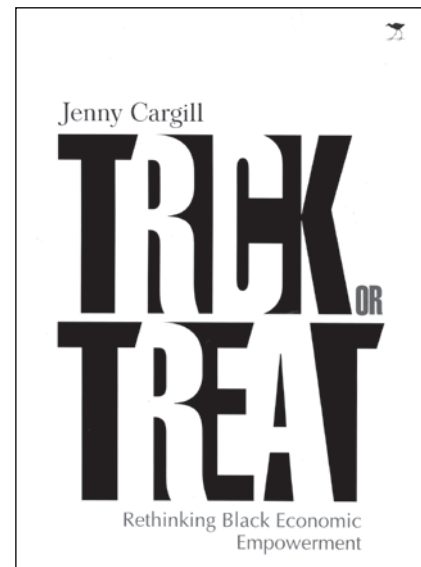
very disappointing from the point of view of its contribution to productive development. It has, if anything, diverted resources away from production into finance.

While these insights are both convincing and well-documented, it is hard not to feel a bit tricked by what could have been an important contribution to the debate on the transformation of the South African economy. In the end it remains a limited 'rethink' of BEE.

First and foremost, the very form that BEE has taken in South Africa could be debated. In a country where whites have systematically dispossessed blacks, undermined their economic success as well as their economic prospects, it is strange that 'empowerment' should mean that blacks have to borrow money in less and less favourable conditions and still pay interest to banks to reclaim their fair share of economic prosperity?

Second, why should the scope of empowerment be disproportionately biased towards those individuals, either emerging bourgeois or politically connected post-struggle businessmen, who are able to engage in attractive financial deals?

In this regard, the recent shift from BEE to BBBEE (broad-based BEE - an expression that refers to the support for large constituencies and communities' own equity) seems more formulaic than anything else. It is interesting to note that, as Cargill points out, broad-based constituencies tend to



be more committed than individuals to running the companies in which they invest.

Furthermore, in most cases, BEE, or indeed BBBEE, has done very little for black workers. In fact, there is hardly any reference to working conditions in most BEE charters while evidence abounds that, from mining to forestry, BEE firms who have been awarded contracts combine their favourable equity with fierce exploitation of labour. In a country where workers were deeply exploited under apartheid, surely empowerment cannot be limited to capitalists, however broad the constituency they represent?

Last but not least, and in this regard Cargill's book offers interesting, albeit not fully explored ideas, BEE is not the first policy on the African continent that sought to address the racial distribution of

economic power. Many countries have tried to redress inequities while promoting development. Yet, this aspect is absent from BEE. BEE's focus is on black ownership and fails to take into account the broad economic challenges of the country.

These economic challenges are well known. South Africa needs to create sustainable jobs, rather than increase insecure low-paying jobs. To achieve this, productive activities must be developed and linked to one another. The logic of BEE is frustratingly oblivious to this as it often allows entrepreneurs to bid for a tender on the basis of their racial compliance without any binding condition to produce or source locally.

BEE produces many finance-savvy entrepreneurs but few productive capitalists. Yet, if it seeks to redress an unacceptable economic apartheid, BEE cannot do so by adopting a short-term perspective disconnected from broader economic development perspectives.

On all of these issues, Cargill does offer insights which are useful, but her analysis is extremely contained and rarely elevates itself beyond the observations of an informed practitioner. This is obvious from her references, which are limited to an odd collection of local essays, international reports and fashionable books. Many key contributions on BEE by locally-based academics such as B Freund in 'South Africa: The End of Apartheid & the Emergence of the BEE Elite' or R Southall's 'The ANC & black capitalism in South Africa' in the *Review of African Political Economy*, are not considered. Also literature discussing similar policies in Africa is ignored although some comparisons with Malaysia are offered.

This lack of engagement with relevant research is frustrating because Cargill's level of insider knowledge could have allowed her to link her observations with broader issues of development and distribution, and to offer a much deeper and structured analysis.

The last and weakest chapter of the book offers a colourful patchwork of 'alternatives', from Bhutan's focus on national happiness rather than growth to microfinance, to the suggestion that restored values, entrepreneurship and 'responsible' investment can be the key to development.

Alongside a convincing case for supporting the development of black *medium* enterprises, Cargill unsurprisingly expresses worry that 'reliance on more social spending to shore up the income differences is not sustainable'. This view, informed by conservative economists who view social spending as a pure 'cost', is followed by a suggestion that responsible or social investment can fill the gap more effectively. Such a view is testimony to the blindness of those involved in the financial sector to the broader transformations of which finance has become the driving force.

Perhaps the most crucial shortcoming of Cargill's book is its inability to situate BEE in the current phase of financial capitalism, and in the particular form which it has taken in South Africa. Doing so would certainly have helped to make sense of the financial approach to empowerment in South Africa.

Indeed, the prominent role of finance in the South African economy, bolstered and legitimated by BEE deals, seems, if anything, to have facilitated the *reproduction* of white economic power, at a time where it could have been legitimately contested.

The power of finance in South Africa is in part a heritage from the apartheid past, during which the SA financial system grew to an absurd scale because of the limitations imposed on foreign investment. Since 1994, however, capital has flowed out at a steady pace, recent estimates for capital flight calculated that it peaked at a staggering 23% of GDP in 2007. The financialisation of the SA economy is one of its most striking features, but could hardly be seen as supporting development.

In the words of Ben Fine in his 'Can South Africa be a Developmental State?': '[finance] accounts for one-fifth of domestic income but has failed to mobilise and prompt appropriate funding for domestic investment. Far from finance serving development, the effect has been for it to absorb one-fourth of what is produced with very little in return other than speculative and globalised profitability.'

Cargill's view that 'the values and social goals that inspired BEE have dissipated amid unintended consequences' is a fair reflection of her limited view of BEE and of the broader system of which it is a visible and at least politically important part: financialised capitalism. Far from being an 'unintended consequence', the outcome of BEE is consistent with the political economy of South Africa, a country where neo-liberalism has rendered possible the reproduction of an inequality which now espouses class and not only strictly racial lines, although the majority of the poor are still black and disempowered. ¹⁸

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