FW de Klerk
FOUNDATION

A SOCIO-ECONOMIC IMPACT ASSESSMENT OF EXPROPRIATION WITHOUT COMPENSATION
2. THE ECONOMY, INVESTMENT, UNEMPLOYMENT AND THE QUALITY OF LIFE
By the FW de Klerk Foundation

Sakeliga recently published the government's woefully inadequate socio-economic impact assessment (SEIA) of the likely consequences of the Expropriation Bill. This begs the question of what the *actual* consequences of the Bill, the proposed amendment of the section 25 of the Constitution, and Expropriation without Compensation (EWC) would be. In the second of three articles the FW de Klerk Foundation will consider the impact of EWC on the economy, unemployment, investment and the quality of life.

The Economy
EWC would seriously aggravate the unprecedented economic crisis created by COVID. The uncertainty that it would create regarding property rights would undermine the government's efforts to attract critically needed investment and to achieve economic recovery.

A study conducted in 2018 by Prof Roelof Botha of the Gordon Institute of Business Science and Prof Ilse Botha of the University of Johannesburg warned that South Africa would experience an "imminent socio-economic disaster" if EWC is implemented. The study found that capital formation had, in the short and medium terms, decreased by an average of 13,9% in other countries that had seriously undermined property rights.

The study noted that capital formation in South Africa had already decreased by 7% during the preceding 11 quarters. It concluded that GDP would decrease by R454,8 billion if capital formation in South Africa were to decline by 10%. This would result in a drop of R261 billion in fiscal revenues and the loss of another 2,28 million jobs.

This was before the COVID crisis which shrank GDP by 7,2% in 2020 and led to a loss of 1,729 million jobs. Unemployment now stands at 32,5% - or 43,6% if people who have ceased looking for employment, are included. Only 38,2% of the population between the ages of 15 - 64 are employed.[1]

Although the economy is expected to rebound by more than 3% during 2021, this will be lower than expected global growth - and will be accompanied by mounting concern over unsustainable government debt. National debt is expected to reach R4,6 trillion (86% of GDP) this financial year - and 88,9% by 2025/26. Increasingly mired in a debt trap, South Africa's credit ratings will slide deeper into junk status.

Sustained and inclusive economic growth is the only way out of this trap. President Ramaphosa emphasized this goal in his 2021 SONA address - and Minister Tito Mboweni spelled out his proposals for recovery in the national budget on 24 February. However, plans for economic recovery and for enhanced investment are irreconcilable with EWC.

This is because of the impact EWC will inevitably have on critically needed foreign investment.

Foreign Investment
The government's Socio-Economic Impact Assessment (SEIA) blithely concludes that the Expropriation Bill - including EWC - would not deter investors. According to the assessment "Investors' interest is whether the Bill complies with the Constitution. They are also interested in a stable and safe

[1] Stats SA: Quarterly Labour Force Survey, Quarter 4, 2020

investment environment. South Africa meets this requirement based on its strong adherence to the Rule of Law principle." Well, no. The first interest of any investor is the security of his or her investment. Compliance with the Constitution is relevant only if the Constitution unambiguously protects property rights.

In fact, the only assurance that foreign investors have regarding the security of their investments is the undertaking in the inappropriately titled 2015 *Protection of Investment Act* that "foreign investors and their investments must not be treated less favourably than South African investors in like circumstances." This means that if EWC is adopted foreign investments might be expropriated with no compensation - or with compensation substantially below market value.

Uncertainty regarding property rights has been one of the main reasons for South Africa's chronic failure to attract adequate foreign and local investment. Despite President Ramaphosa's best efforts, investment dropped from 18% of GDP when he became president in 2018 to less than 11% during the third quarter of 2020.[2]

The following table[3] illustrates South Africa's failure to attract sufficient foreign direct investment when compared with other mineral-rich economies - despite the fact that that South Africa possesses the world's greatest mineral reserves - valued at US$ 2,5 trillion.[4]

.FDI INFLOWS: 2015 -2019 - US$ billions						
Country	**2019**	**2018**	**2017**	**2016**	**2015**	**Total**
Australia	40 074	61 079	47 541	42 980	46 892	238 566
Colombia	14 313	11 535	13 836	13 847	11 723	65 254
Chile	11 928	7 322	6 127	12 328	20 879	58 584
Malaysia	7 650	8 570	9 368	13 470	9 857	48 915
South Africa	4 624	5 569	2 058	2 215	1 521	15 987

Threats to the Banking System
According to the government's assessment, the Banking Association of South Africa (BASA) supports the Expropriation Bill - including, presumably, its provision for zero compensation. However, in its submission to parliament on 30 January 2020 regarding the amendment of Section 25 of the Constitution, BASA warned that land reform should take place in an orderly manner *that does not dilute property rights.* According to BASA

> "A marked decrease in the value of land-based property, caused by either an amendment to legislation and/or market uncertainty, and the resultant reduced appetite from property buyer could destabilize the banking sector and have a negative impact on the credit rating of the sector and the country."

BASA added that its exposure to land-based property was R1.613 trillion - and cautioned that "many banking crises around the world have their starting point in the decline in land-based property and the impact that this has on market confidence."[5]

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[2] Ivo Vegter, Daily Friend, 16 February 2021
[3] World Atlas, Net foreign direct investment inflows in current prices, https://knoema.com/atlas/topics/Economy/Balance-of-Payments-Capital-and-financial-account/Net-FDI-inflows
[4] David Michaud, 911Metallurgist, 19 December 2013
[5] PUBLIC SUBMISSION TO THE AD HOC COMMITTEE ON THE AMENDMENT OF SECTION 25 OF THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA, 1996 (CONSTITUTION EIGHTEENTH AMENDMENT BILL); Banking Association of South Africa, 30 January 2020.

On 24 March 2021, in testimony to Parliament, BASA said that EWC would destabilize the banking sector, discourage investment and have a negative impact on economic activity, unemployment and food security.

EWC could also harm South Africa's trade relations. In particular, it might be in conflict with the requirements of the United States African Growth and Opportunity Act (AGOA) in terms of which most South African exports to the US currently enjoy tariff-free status. It might also create legal difficulties in South Africa's relations with foreign investor countries.

The Outflow of Skills and Taxpayers

Apart from these dire economic consequences, EWC might accelerate the emigration of critically needed skills and taxpayers. According to the government's White Paper on International Immigration[6] an estimated "520 000 South Africans … emigrated between 1989 and 2003, with the numbers growing by about 9 per cent per annum". An estimated 23% of the emigrants had professional qualification - representing about 7% of South Africa's stock of professionals - which was "more than eight times the number of professionals immigrating to South African in the same period". The White Paper reported that in recent years "white emigrants appear to be outnumbered by black professionals." According to Stats SA 404 227 white South Africans have emigrated since 2000[7] - further depleting the country's skills base. Adoption of the Bill, together with EWC and demographic-based RET, could accelerate emigration of both white and black professionals - depleting the pool of 2 million taxpayers who currently pay 80% of personal income tax - equal to more than 30% of all state revenue.

The Impact on the Quality of Life of South Africans

One of the constitutional provisions against which all government legislation and action must be measured is its likely impact on the country's ability to "improve the quality of life of all citizens and free the potential of each person."

The ability of any society to achieve these goals is inexorably linked to the degree to which it respects the property rights of its citizens. According to the Simon Fraser Institute Annual Economic Freedom Survey for 2020 there is an absolute correlation between economic freedom - of which property rights are a core and essential part - and virtually all positive social outcomes:

Category	**Least Free**	**Third ¼**	**Second ¼**	**Most Free**
Income per capita	$5 754	$13 034	$23 596	$44 198
Life expectancy	65,62	70,62	74,18	80,29
Infant mortality per 1000 births	39,38	23,71	13,54	4,99
Income earned by the poorest 10%	$1 558	$2 596	$4 930	$12 293
Poverty rate at $1,90 PPP per day	31,52%	20,56%	9,4%	1,7%

On the other hand, the catastrophic example of countries that have set out to destroy property rights are there for all to see in Venezuela and Zimbabwe. Between 2013 and 2019 the Venezuelan economy shrank by 62% and hyper-inflation reached 10 million per cent. 3,4 million Zimbabweans[8] and 5 million Venezuelans have fled their countries to escape poverty and repression. The difference is that should South Africa follow their example there will be no borders across which its people will be able to escape.

[6] White Paper on International Migration, Chapter 10, Government Gazette No 41009 of 28 July 2017
[7] Stats SA, Mid-term Population Estimate, 2020, p.3
[8] The Borgen Project, 21 october 2016, https://borgenproject.org/10-facts-about-zimbabwe-refugees/