

## NEWSLETTER

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**ECONOMIC COMMENTARY - By Francois Stofberg****Land Expropriation without Compensation**

As expected, the topic of land expropriation without compensation is back and still just as harmful for sentiment towards South Africa (SA) and our economic prospects. Just a couple of months ago I explained that the African National Congress (ANC) will be using this policy as a vote-winning tool, as the 2019 general elections draw closer. I even said we might see a few actual expropriations before the election.

The truth is that the ANC and President Cyril Ramaphosa are in a tight spot. Ramaphosa is still a very weak president and needs support, especially from those crucial, tough, socialist regions like Kwazulu-Natal and Limpopo. Also, during the last general election the ANC lost votes to the likes of the Economic Freedom Fighters (EFF) and during the last municipal elections, they lost key metropolitans to the Democratic Alliance (DA). To win back key metropolitans the ANC will have to substantially improve their service delivery, which, if history is anything to go by, is near impossible for them. The next best thing is to win back some of the more populist, extremist-type votes.

But, winning back votes is, of course, only part of the reason for a shift towards the type of land expropriation the ANC is suggesting. At its core, the ANC is an ideologically confused party with deep communist roots which turned neo-liberalist, then back to socialism, and then into something else, and ultimately into who-knows-what now. Although they bark like Marxists, their policies suggest they lean more towards being Leninist – centralising power to the state and having the state control everything its inhabitants are not wise enough to manage themselves. This is reason enough to introduce troubling policies of expropriation in an already, struggling economy.

So, why is it so “bad”? The reason is simple, without complicating it with smart maths and economic philosophy. The primary purpose of a government is to protect its “people” and their private property rights. So, any policy that sounds like it runs counter to that objective threatens sentiment, disincentivises entrepreneurs and deters long-term investors. All of which reduces the potential for economic growth, which ultimately increases unemployment, poverty, and inequality.

Most, if not all, participants would support a policy that redistributes land to individuals under clear, objective and qualifying rules. Most important among these conditions would likely be the ability to provide sufficient proof of ownership. Another important qualifying criterion might be how far back the ownership is applicable, and how expropriation will be applicable on assets on the land (i.e. crops, buildings etc.). In doing so, an expropriation policy would fit into government’s purpose of protecting the property rights of all people.

However, the way in which SA’s government have been communicating their intent, without clear and sufficient conditions, does not deliver the crucial guidance business and markets need. In fact, the ANC does not seem to care much about the property rights but want to use expropriation towards something they believe will deracialise property (read farms). A tool that seems aimed at breaking up large profitable commercial farms that are only competitive because of their scale, to fuel their illusions of growth grandeur. For this reason, business, investors and the rest of the world believe land expropriation without compensation sounds very much like what Zimbabwe tried to do. It also seems like a very short jump from land expropriation to property expropriation – intellectual property, factories, listed assets, and the list goes on. Especially in a country where the democratic fabric and independence of institutions have been under constant attack by corruption; state capture only being the most recent of these attacks.

Having said all that, don’t pack up your things just yet (but make sure you don’t have all your eggs in SA). There is still not enough information about the implementation of land expropriation to make any good long-term call on. This is very bad for our economy but reduces the urgency to “cut-and-run”. Also, I am confident that President Ramaphosa can walk the tight-rope between populism and sound economic theory (much like what Trump is trying to do). And, if history has proven anything, SA always makes it. Somehow, we unify and push forward towards a better place for all.