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The economic front in the face of crime

Minister Trevor A. Manuel

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Minister, Guests

Thank you for granting me the opportunity to address you today, to cover something which I believe is of critical importance to our country. I believe the matter of the relationship between the economy and crime will become ever-more important as we chart the future of our democracy.

Government commitment

Let me begin by saying that government is committed to bringing crime rates down.

This is something that should be obvious to everyone, but for reasons I cannot begin to fathom, some people doubt this . So let me reiterate what every official from the President down has said on innumerable occasions: Government knows that crime rates in South Africa are unacceptably high.

We know that far too many ordinary people across South Africa suffer at the hands of murderers and rapists, robbers and child abusers. We understand

the implications that crime has for their quality of life. We understand the implications it has for the social fabric and for the health of our communities.

Our commitment to this fight is borne out both by the strategic choices we have made in restructuring our criminal justice system and by the massive resources we devote to the criminal justice system every year.

This year we will spend well over R55 billion. This is three times more than what we spent just 10 years ago and, according to the Institute for Security Studies, as a proportion of GDP, it is three times the global norm.

The R55 billion pays the salaries of our police officers, the numbers of which will grow to over 190,000 by 2010. That is up from less than 120,000 just six years ago. This R55 billion pays the salaries of prosecutors and magistrates, judges and prison warders. It also pays for the construction and maintenance of facilities: police stations, courts and prisons.

Government has invested heavily in the criminal justice system and will continue to do so. That is only one measure of our commitment to fighting crime. The other measure of our commitment to fighting crime lies in the efforts that the criminal justice departments have made to transform themselves.

In 1994, we inherited a police service shaped by its dedication to upholding apartheid; a police service whose idea of crime prevention was to pluck the indigent from suburban streets into vans, and then dump them in the townships. We inherited a legal system in which convictions followed confessions, and, as a consequence, 'evidence gathering' often meant little more than locking a man in a room with some heavies for a few hours.

Government has sought to address these matters and we have made a huge progress on many fronts. But both the resourcing and reform of the criminal justice system have not been the only pillars on which we have sought to deal with criminality. Recognising that crime is a symptom of the iniquities and

inequalities that are reflected in our socio-economic statistics, we have invested heavily in poverty alleviation and education, in municipal infrastructure and the building of homes.

We have not neglected the root causes of crime. In fact we have tackled them head on.

The effect of all of these efforts is that most forms of criminality have shown a steady decline over the past six or seven years. That we would prefer the improvement to be more rapid goes without saying. I repeat: ours is a government that is committed to the fight against crime. Our policies show this. And so does our record.

More to be done

Having said this, I want to say also that there is much we must still achieve.

We know from survey evidence that far too many South Africans are afraid of crime whether they are at home or in the street, whether at night or during the day. Their fears and assessment of the risks they face, are not always grounded in reality. Nevertheless, those fears are real and we must deal with them: we must bring crime down further and faster.

As the President said in his State of the Nation address at the opening of Parliament, 'We cannot ... claim the happiness that comes with freedom if communities live in fear, closeted behind walls and barbed wire, ever anxious in their houses, on the streets and on our roads, unable freely to enjoy our public spaces.'

This must change.

It must change for many reasons. The most important of these, as the President has suggested, is that the fear of crime, and the experience of victimisation, devalues the freedom many of us fought for.

Another reason we must redouble our efforts to bring down crime is almost as important as the need to give people the security that they deserve. This is that crime is affecting our economy.

No-one can say precisely how great a drag on economic growth our present levels of crime are. It is not unreasonable, however, to think that the effects are big enough for the Minister of Finance to worry about and to take seriously.

We know, for instance, that crime imposes costs on business. Insurance premia, security costs and losses to thefts and robberies, to say nothing of the reduction to productivity that follows whenever an employee is victimised ... these are all costs that businesses incur. Each of them makes our businesses less competitive in the global market place.

Crime also imposes costs on households who spend more on security than they should have to. I for one would far rather see households saving the money they are currently spending on security systems and high walls.

And, despite their dominance of the public airwaves, it is not just the middle classes who bear these costs. In fact, it is common cause that it's the poor, who have little enough already, and who cannot afford either insurance or security systems, who suffer disproportionately from crime. To the extent that their lives and livelihoods are scarred by criminality, government's efforts at uplifting the poor are undermined.

We often mention crime as a factor that constrains economic growth and the potential of entrepreneurs, yet we know little about how much crime constrains growth and by what mechanisms it limits growth and development. Christopher Stone, an academic at the Kennedy School of Government at Harvard University has published a paper on Crime, Justice and Growth in South Africa as part of a growth diagnostics for South Africa (this paper can be found via the Treasury website). He lists seven mechanisms by which

crime affects economic growth. Without listing these, I urge you to look up this paper if you're interested.

The World Bank's Investment Climate Survey found that crime costs businesses about 1.1 per cent of sales and 3 per cent of net value added in South Africa. This was in line with countries such as Brazil, Philippines, Russia and Peru. On the positive side, relatively few companies reported that they were forced to pay 'protection fees' to external parties. However, the cost of providing security to companies has increased considerably since 1997.

The burden of crime is also felt in the second economy. In Mamelodi, almost 40 per cent of households run some type of business operation, with 73 per cent of these businesses operated by women. Crime was amongst the highest factors reported when looking at profit margins since businesses had to close early, operate behind shields and provide secure storage facilities for goods.

Economic crime

The crimes that people fear the most are usually crimes of violence and it is, therefore, appropriate that the police and the rest of the criminal justice system is prioritising the prevention of contact crimes. But these are not the only crimes that affect the welfare of South Africa's people or the economy.

In focusing on these 'crimes of the street' we should not forget the crimes committed by those in their corporate suites. Corporate and economic crime often goes unmentioned by some of the most outspoken critics of government's performance in relation to crime. Economic crime is sometimes treated as the ugly step-child of the criminal justice system.

Corporate crime or so called 'white-collar crime' in the private sector and in our financial services industry in particular is also a major source of concern because the victims of these crimes are not just the financial services companies themselves, but often poor people who have saved in these institutions.

As Minister of Finance, I place a high premium on the integrity, efficiency and ultimate credibility of our financial system as a vehicle to deliver the services upon which a modern thriving economy is based. I am deeply troubled when those in charge of the institutions of the financial system flout the trust placed in them by using the financial system for their own enrichment at the cost of their investors. These actions cause inefficiencies in the system, which drive up the costs and reduce the profits, and hence our savings. I especially worry when those who are trusted to invest the savings and pensions of hardworking people, people who only want to provide a better life for their dependants or for their old age, loot these savings for their own greedy purposes. When this kind of abuse happens, who can blame people if they lose their faith in the financial system and it reduces their eagerness to save.

But we must look at ourselves and ask why it is that only when we see the impact of the looting of savings on the lives of pensioners that we remember that this kind of criminal behaviour, too, is a scourge that must be rooted out?

Over the past 10 years we've sought to improve corporate governance through legal reform and by building institutions like the Financial Services Board. We have also sought to ensure that our banks become more vigilant for signs of money laundering. Our Revenue Service has begun to pursue aggressively those who mock the law by creating ever-more elaborate corporate and financial structures whose sole purpose is to reduce their tax bill.

The extent of compliance with all these requirements remains unsatisfactory, however. As a result, it has become obvious that we need to increase our capacity to enforce the law substantially, something for which our latest budgets have begun to make provision.

The fact of the matter, though, is that the culture of compliance with both the law and the principles of sound corporate governance is not embedded deeply enough across our corporate world.

There are too many companies whose tax affairs are not in order; too many whose employees' conditions of service are not up to legal norms; too many whose directors think little of fleecing clients, suppliers or their staff pension funds. Too many businesses and banks lend recklessly. Too many buildings fail to meet legal health and safety standards. Too many buses and taxis are not roadworthy; too many truck drivers are forced to drive 18-hour days.

The list is endless, and each entry on it reinforces my sense that the culture of business in South Africa is not a culture of compliance. That explains, I think, why a recent survey conducted by Transparency International found that South African companies are perceived to be among the most egregious offenders in the world when it comes to paying bribes.

Let me say here that the era of cajoling business to get its house in order is rapidly coming to an end. It will be replaced with more active and activist law enforcement. The fear of getting caught and the probability of being convicted must rise to reinforce any cultural changes that we seek to bring about. In this respect, I want to point to the rapid growth of the budget of the Specialised Commercial Crimes Court, which has doubled in the past 3 years. This court is, I believe, the kind of sophisticated response to a multi-faceted challenge from which other agencies can and should learn.

Corruption

It is not just corporate South Africa and the business community more broadly about whose compliance culture I am concerned. In government, too, we have too many officials whose decision-making is skewed by their pursuit of personal gain.

In a 2005 survey by PricewaterhouseCoopers of 100 firms (69 of which were listed companies), 36 per cent reported corruption or bribery offences, in contrast to 24 per cent globally, and 21 per cent in South Africa two years earlier. The survey found that 5.6 per cent of South Africans had been asked for a bribe, favour, or gift from a public official in exchange for a legally

required service over a one-year period. A total of 4.6 per cent had been asked specifically for cash, up from 2 per cent in 1998.

Whether it is the logistics head who receives kick-backs from building contractors or the official who sells an ID book, whether it is a police officer who shakes down immigrants or the local councillor who makes sure contracts go to his or her relatives, there are too many officials whose ethic of service is unacceptably frayed.

Fixing this requires that public service managers take more responsibility for the stewardship of public funds. We have created a regulatory framework under the Public Finance Management Act (and its municipal counterpart) that makes this possible. It also requires that political parties who deploy their members to government, must monitor the performance and ethics of those officials. What it requires most of all, however, is that we use with ever-increasing vigour the tools contained in our law to identify and prosecute those who loot public funds.

The resources we have devoted to this task have grown exponentially in the past few years. The Special Investigating Unit, for instance, will see its budget double in the next two years. Those funds will be used to scale up their activities. By prosecuting more officials, I expect their efforts will encourage other officials to show more respect for their legal and moral duties.

Building on the successes: The importance of improving deterrence

I want to conclude by making a few observations about where I think some of our efforts must be directed.

We need to ensure that our criminal justice system truly becomes an effective tool in the deterrence and prevention of crime. For this to be achieved to the fullest extent possible, the efficiency of the criminal justice system must be such that it can provide the assurance that wrong-doers will be identified,

found, prosecuted and punished. Whether these are muggers and murderers, corrupt officials in the public service, or businesspeople with hands in the till, we need to ensure that our systems can raise the risk of criminal behaviour. Neither the NPA, nor the courts, nor any of the investigative agencies in the state, should rest on their laurels.

Too many people get away with their crimes and benefit handsomely from their criminal lifestyles. More needs to be done to address this. Apart from the demands of justice, pursuing criminals more effectively will deter others from following their tracks.

In this regard, I want to say that we also need to develop our capacity to work together. We also recognise that fighting crime requires both a more coordinated response by government involving numerous agencies, but also social workers, our schools and local councillors. Furthermore, there is a clear and direct role for communities through community policing forums and through greater involvement by community organisations such as churches, youth organisations and the business community. Only through partnerships can we hold our law enforcement agencies accountable and direct their efforts in a firm and innovative way, taking into account the conditions at a local level.

I have already directed the agencies which report to me – the Financial Services Board, the Financial Intelligence Centre and the SA Revenue Service – to work more closely with the police and prosecution service. This partnership directs its skills and resources at identifying people who commit financial crimes. But it must do more than this too. It must also seek to recover the proceeds of crime accumulated by criminals of any and every stripe. We have already put in place the architecture needed to ‘follow the money’. We must now redouble our efforts to seize these assets.

In addition to raising investigative and prosecutorial success rates, there are other areas where we need to sharpen our focus.

South Africa is, as I have said, a part of the world economy. There are great benefits that flow from this. But there are also risks. One of these is that our public and private institutions attract more criminal attention than they once did. Many of these institutions, I believe, are vulnerable to the ever-more sophisticated attacks that some of these criminal forces would seek to launch. We need to ensure both that our defences are strong and that our capacity to respond to these incidents is nimble. While building our capacity to respond to violent crime, we cannot ignore the fact that syndicates across the planet take greedy advantage of any opportunities for quick profits.

Conclusion

By way of conclusion, I want to congratulate the NPA on the launch of your 'Strategy 2020'. I must say it is sometimes a relief to find an organisation that is planning for a future beyond 2010.

That future, I am sure, is bright. Your vision looks good. Your leaders are first class. Your budgets are growing. There is no reason why government should not be able to expect the effects of your efforts to be felt more and more strongly.

I thank you for your time and patience.