



MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA

**Address by the Deputy Minister of Finance Mr. N Nene:
Business and Politics: Strange Bedfellows or Inevitable Allies?**

**ABSIP Student Chapter Power Talk at the University of the
Witwatersrand
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It is my privilege to speak to you today on whether business and politics are strange bedfellows or inevitable allies.

I also feel privileged because it is you, the future business and, I hope, political leaders of our country, who invited me to address you today. That you have chosen such an important topic is proof that the future of South Africa will, indeed, be in good hands.

You could not have chosen a more appropriate topic for our times. Examination of the relationship between business and politics offers one a great vantage point from which to look at the world today, a world which is haunted by the spectre of capitalism - or the market economy as it often called. There is no doubt that capitalism is one of the best ways of generating wealth and creating jobs. But as the events of the past three years have demonstrated capitalism, or its excesses, can, if left unchecked, cause untold suffering.

Australian sociologist Robert J. Holton writes in his book, *Economy and Society*, that the fear of social life being dominated by apparently uncontrollable economic processes has become intensified by the increasing reality of a world economic system. "*The anxiety is*

that global economic institutions and processes have become more powerful than either nation-states or social movements seeking to regulate economic life in accordance with individual, or community or national political objectives.”

We meet today to examine the relationship between business and politics at a time when the fears that Holton refers to are at their height. Today the world is facing one of the most uncertain times, certainly since the Great Depression of the 1930s. The world economy is recovering from the recession, but the recovery remains fragile. China, one of the biggest drivers of economic growth in recent years, is slowing down; the US is sending mixed signals, and apart from Germany, the rest of the Eurozone will remain mired in low growth for many years to come.

These uncertain times have highlighted once more the interdependency of business and politics. When the financial crisis hit the US, plunging that country's economy into a deep recession, it was government that economic actors looked up to for help. Mobilizing all its financial and regulatory resources, the state stepped in to stabilize the economy. But even in normal times, the relationship between business and politics is a key determinant of whether nations develop economically.

The relationship between business and government is a special one, largely because of the mutual dependency that exists between the two forces. The state relies on businesses to invest and therefore grow the economy; businesses, in turn, depend on government to create the regulatory environment that is conducive to doing business. Government, if you like, is the visible hand without which Adam Smith's famous invisible hand would not exist.

As Holton points out, beyond the struggles and exigencies of everyday life, the economic questions are intimately bound up in the ways we understand the structure and dynamics of social life, and in debates about what kind of economic arrangements

best advance human welfare. In the past, these concerns have found expression in the debates and analysis of capitalism and socialism as rival economic systems, and in public policy debates about the relative merits of free markets and public planning.

In our country, as it is the case in other parts of the world, these concerns find expression in the renewed debates about the role of the state in economic growth and development. The vision of turning ours into a developmental state has been met with much skepticism in some quarters. Yet, it is only if the state acts in this manner that we will be able to level the playing field and redress the imbalances of the past.

The opposing sides to these debates are made up of those who measure human welfare in material terms and those who believe that measures such as income and wealth, important as they are, should be subordinated to higher social values – equality and justice, for example.

This, as Holton points out, reminds us that economic analysis is far more than a technical matter, for it raises many of the most important values about which individuals and their political representatives feel most passionately. Economic arrangements must always be evaluated and scrutinized for their moral underpinnings, or lack thereof.

And it is in the political arena where the evaluation and moral scrutiny of economic arrangements takes place. Underpinning all of the debates about economic policy choices in our country today, including the proposals that the ruling party will debate at its National General Council next month, are the social values that Holton refers to.

Distilled down to its basics, business, or more precisely economics, is about the generation of wealth. Politics, on the other hand, is about the organization and sharing of power, but most importantly, it is about how a country's wealth is distributed or

shared. Also, politics, acting through the long arm of the state, shapes the rules of the economic game, rules that guide the so-called invisible hand of the free market system.

In essence, business activity takes place within, and ought to be rooted in, a constitutional and political context. Business, therefore, depends on the legislative and regulatory activities of governments (politics) for its prosperity.

As John Maynard Keynes pointed out more than 70 years ago, *“economic prosperity is excessively dependent on a political and social atmosphere which is congenial to the average businessman”*.

So, business and politics can never be strange bedfellows. They are the inseparable twins. How the twins live side-by-side is something that is peculiar to the historical circumstances of each nation. Germany’s social market economy, for example, is an arrangement that arose to strike a balance between the virtues of a free market economy and the virtues of a social welfare system.

The US, on the other hand, has more of the free market economy but a limited dose of the social. The social was introduced in the 1930s to help those who were hard hit by the Great Depression. Since then, social safety nets have helped those US citizens who cannot cope with the competitive demands of a market economy. The other distinguishing feature of the US is the revolving door between business and politics, whereby businessmen move in and out of politics. Michael Bloomberg, the founder of the eponymous media group, left the running of his company to professional managers to pursue a career in politics as the mayor of New York. Hank Paulson left his job as chairman and chief executive of Goldman Sachs to become Secretary of the Treasurer in the George W. Bush administration.

In France, for example, business leaders and policymakers tend to be drawn from people who attended the same schools and universities.

What about South Africa?

For historical reasons, South Africa is one of the few countries in the world where the people who make economic policy (politicians) come from backgrounds that are different to those who control economic resources (business people). This makes for some interesting dynamics, not the least of which is trust.

The gap has narrowed somewhat since 1994, albeit at a very slow pace. It has narrowed because of transformation policies, which have increased the number of black people in the upper echelons of business. Unlike the US, the door between business and politics in South Africa is a very small one. It revolves occasionally, but mostly sends people in one direction. The trend since 1994 has been for politicians to move into business. The only exception in recent years being that of Tokyo Sexwale, the Minister of Human Settlements, who moved from politics to business and then back into politics.

I firmly believe that this situation will be redressed in the near future, when the economy, all levels, will be a true reflection of the demographics of our country. In addition, I would also like to challenge you to consider working in the public sector - as you are aware the economic and social challenges that our country faces are enormous. We need young vibrant minds to help to make South Africa a better place for all its citizens. Some of you may even choose to enter politics!

I thank you.