

Land reform – approach with extreme caution

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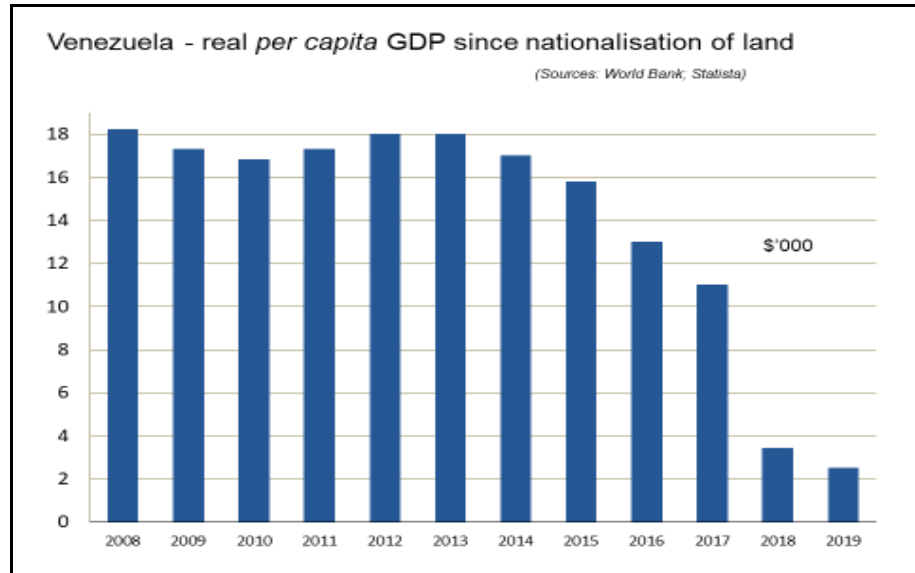
During the past week, the policy discourse in South Africa was dominated by public hearings on the draft Expropriation Bill and proposed amendments to Section 25 of the Constitution, which also deals with the vexed issue of land expropriation.

This time around, the devil is not only in the details, but also in the sentiment – specifically a potential perception amongst both domestic and foreign investors that private property rights may be jeopardized in future.

It is a debate that should be taken seriously, as the wrong approach towards land reform could condemn South Africa to a very lengthy and debilitating recession.

This seemingly alarmist statement is supported by voluminous empirical research on the relationship that exists between capital formation (fixed investment), employment and economic growth.

The results invariably demonstrate that investment has a positive impact on employment and vice versa – a message that has been ignored by countries such as Zimbabwe and Venezuela, whose economies went into meltdown and whose currencies became literally worthless as a direct result of a radical approach towards land reform. Both have experienced a mass exodus of their citizens, mainly due to food shortages and spiralling unemployment.



A common conclusion arrived at in all of the authoritative studies on this topic is that, in order to stimulate employment, investment enhancing policies, such as low interest rates and a favourable economic environment should be put in place to accelerate growth.

It should be fairly obvious to informed economic policy makers that a “favourable economic environment”, as referred to in the above study, would include the constitutional guarantee of private property ownership as a fundamental premise.

A study that was recently commissioned by Agri SA (whose members constitute the largest collective of private rural landowners in the country), raised a multitude of legal concerns regarding specific definitions and clauses, including the definitions of expropriation, public interest and “nil” Rand compensation.

Agri SA also requested a team of economists, including the author, to conduct a macroeconomic impact assessment of a policy of EWC. Both Agri SA and the Agricultural Business Chamber (Agbiz) regard land reform as an important policy imperative, but warn against regulations that do not respect the principles of free enterprise and private property rights.

The Agri SA study involved a macroeconomic impact assessment of a policy of land expropriation without compensation via econometric modelling, based on changes to capital formation/GDP ratios gleaned from relevant country case studies that had pursued policies of EWC.

The study avoided the disjointed and often ideological debate on widely differing opinions of what is perceived as wrong or right with property ownership in the country, but simply points out the results of a quantitative assessment of the likely future effects on the South African economy if EWC was to be pursued.

Key results of the study are:

- A decline in annualised nominal GDP in Q3 2022 of R417-billion (in the event of a 5% decline in capital formation – scenario 1) and a decline of R616-billion in the case of a 10% decline in capital formation – scenario 2
- The cumulative loss of economic output over the nine quarters of the forecasting exercise amounts to R735 billion and R1.05 trillion for scenarios 1 and 2, respectively
- Government’s much anticipated Reconstruction and Recovery Plan will come to naught and within a couple of years, fiscal revenues will dwindle to the point that the grant system for 18 million people will have to be abolished. This will have profoundly negative implications in terms of food security, widespread poverty, malnutrition, unemployment and social unrest.

In conclusion, the study confirms imminent socio-economic disaster for South Africa in the event of EWC being pursued.

Politicians and bureaucrats cannot repeal the fundamental laws of economics, try as they might. Economic capital, which is an indispensable prerequisite for economic development, job creation and growth, needs to be nurtured and incentivised, otherwise it simply moves to greener pastures.