

# Once-off equity tax a lost opportunity to end BEE



**BLACK JACK**

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**T**HE PSYCHOLOGY involved in black economic empowerment (BEE) is quite interesting, because it influences the behaviour of the people driving the programme's success or failure.

Context and environment have an important influence on the outcome of things. Let's play a thought game and imagine possible moves concerning BEE taken in 1993, compared to actual moves taken in 2003 that culminated in the BEE Act and the BBEE Codes of Good Practice.

If the ANC had played hardball when it came to negotiations relating to the economy in 1993, and demanded that all companies must give away 25 percent of their equity to black people, what would have been the impact?

In the 1993 context – when we were on the verge of elections and an untested black government – this would have generated a lot of kicking and screaming among white people.

The international community's reaction may have been negative too, thus threatening the integration of the new democratic South Africa into the international community. So, the prospect of sanctions being lifted would have been very dim.

Let's assume the ANC actually had the proposal adopted and legislation obliged every company in South Africa to transfer 25 percent of its equity to black people.

If companies were given a choice to select their beneficiaries, who would they choose from the following: a state-owned entity set up as a bridging fund – such as

the National Empowerment Fund – to benefit black people; black entrepreneurs who operate or have a great interest in operating in the same sectors as the transferring company; or any ordinary black person of their choice?

These beneficiaries have different levels of sophistication. The state-owned fund would have the necessary resources to get experts to manage the transfer process and subsequent redistribution of funds to the intended beneficiaries.

Black entrepreneurs would not necessarily have the government fund's resources. But they would be astute enough to know the basics of their industry, and would use critical benchmarks to see whether the business was healthy.

The black man in the street would not have the same level of understanding as the government fund, or a black businessman or entrepreneur.

Would the transfer beneficiary's choice be that the white businessman gravitate towards the man in the street, the black busi-

nessman or the government fund?

Applying the rational test of economics, and taking an average businessman's motives into account, the inclination might be towards the black man in the street.

Such a decision has two sides. One is the more benevolent view that the man in the street must ultimately benefit from such a transfer, because he would have borne the brunt of a lack of opportunities.

The other is the prospect of less interference in running the business, and a lack of business expertise might make him easier to control or manipulate.

However, some businessmen might choose the black entrepreneur.

They would see more growth opportunities with a black partner in the new political dispensation.

I am not sure how many would choose the government, because that would be seen as nationalisation.

If the business community had accepted the once-off 25 percent equity transfer in 1994, and seen it as a Truth and

Reconciliation tax for the new democracy, the political argument for broad-based black economic empowerment would have disappeared forever.

Furthermore, the expertise to monitor the substance of the transfers from an economic point of view would not have been strong which would have made it easier to conclude the deals on simple terms.

When we look at BEE's current environment, it is much more comprehensive. But it cannot guarantee true transformation, because it is still prone to manipulation.

In retrospect, a once-off 25 percent equity tax in 1994 might have been more palatable than the current environment. When we look to the future, given the current level of contribution to BEE, more stringent requirements will be put in place.

This makes current times a lost opportunity to end BEE once and for all by ensuring true empowerment takes place now.

The bottom line is: do it right the first time, because then no arguments can be raised to perpetuate BEE legislation.