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THE NATIONALIZATION OF INDUSTRY IN SOUTH AFRICA

An attempt to put the debate onto economic grounds.

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A)

FIVE QUOTATIONS

To begin with a quiz: who are the authors of the following five statements? .

1) "The Freedom Charter is an exceptionally significant document as I want 1 to tell Honourable Members of Parliament today. Anyone who has not yet read it should do so". (Said in Parliament).

2) "Nationalization of all mining and mineral interests in South Africa is a key factor in the economic policy of our Party. The purpose is to achieve upliftment of South African peoples, especially the under-privileged. I support the free enterprise system in principle, but it is unable to function effectively in South Africa".

3) "Should we take power in South Africa, the first thing we will do is to nationalize the mineral wealth of the country. The natural wealth of this country belongs to its people irrespective of race. (We) should come together to fight monstrous monopoly capitalism .....".

4) "The Freedom Charter does not institute a blue-print for a socialist state. The dispossession of the mining kings and land barons would open up fresh fields for the development of a prosperous non-European bourgeois class. For the first time in the history of this country the non-European bourgeoisie will have the opportunity to own in their own name and right mills and factories, and trade and private enterprise will boom and flourish as never before".

5) "The ANC is not a socialist party. It has never pretended to be one, has never said it was, and is not trying to be".

The authors are, 1) General Magnus MalanO) , 2) Mr Allan Hendrickse(3) , 3) A spokesperson for the Conservative Party(3) , 4) Mr Nelson Mande1a(%3 5) Mr Thabo Mbeki (5) .

The bewildering positions revealed in the above statements serve as justification for this analysis. To date, the debate on the Freedom Charter and the nationalization of industry has used up a considerable amount of political electricity to generate certainly some heat, but regretfully little light. This paper is an attempt to draw out arguments for and against the nationalization of industry, and to put them into an economic context.

This paper will concentrate on the implications of the Freedom Charter's nationalization clauses for industry, and will begin from that as a point of departure. This document does not imply that the author does (or does not) believe in the possibility of a government committed to such ideals taking power in South Africa.

Further, attempt is made to 'Qresent argument both for and against nationalization fairly, as this paper is hoped to be a springboard for a more focussed debate on this topic, rather than a statement of position on the topic.

THE W CHARTER AND NATIWALIZATION OF INDUSTRY
The Freedom Charter's position on nationalized industry is contained in the following clauses:

THE PmPLE SHALL SHARE IN THE COUNTRY'S WEALTH!
The national wealth of ouricountry, the heritage of all South Africans, shall be restored to the people:
The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole:
All other trades shall be controlled to assist the well-being of the people:
All people shall have equal rights to trade where they choose, to manufacture and to enter all trades, crafts and professions.(9)

Such clauses in turn are bpen to varying interpretations, for example:.
does "the mineral wealth beneath the soil" refer to deposits of minerals, or to the mining houses themselves?: and
are "monopoly industries" just that, or are such conglomerates as the Anglo American Corporation meant to be included, despite the fact they they are not "monopolies" in the strict sence, nor, for that matter, in any sense when their activities in such industries as motor manufacture, insurance, banking, farming, paper manufacturing amongst others are considered.
For clarity we have to turn to the analysis of the Charter made by the ANC National Executive Committee at the 1969 Morogoro conference where it was decided:

It is necessary for monopolies which vitally affect the social well being of our people such as the mines, the sugar and wine industry to be transfered to publif ownership so that they can be used to uplift the life of the people. 7)

Regretfully no explanation is provided of what "monopoly" is taken to mean, nor of why some industries are singled out, and others ignored. The difference between "mines" and "mining houses" is not dwelt upon. For the purposes of this paper I will follow Peter Robbins:

Ihe ANC has always maintained that it will bring the "commanding heights" of South Africa's mining sector into public ownership once it assumed power. (He assumes. this to include) "Anglo American Corp: Charter Consolidated, Anglo Transvaal, Gold Fields, Barlow Rand and Gencor, tzgfther with all their subsidiaries and jointly owned companies.

ARGUMENTS FOR NATIONALIZATION
Nationalization will help restore a degree Of Political Equity to the Economy
This argument could run as follows:
Over history, South Africa has seen the development of massively unequal political circumstances, with the cleavages between the politically powerful and the politically powerless almost always dividing on racial lines. This situation has seen black South Africans excluded on political grounds from great sections of economic activity. An example of this is the mining industry.
Under our conmon law the landowner owns the minerals beneath the soil. But. as the Group Areas Act precludes Africans, Indians and Coloureds from acquiring land estimated to cover 80% of South Africa, including almost all of the mineral rich land, the majority of South Africa's inhabitants are prohibited from acquiring mineral rights over virtually the whole of the country.
Further, the state reserves for itself. in terms of the Mining Rights Act of 1967, the right to mine for precious metals in South Africa. Uhder this act, the Minister grants mining leases to applicants for deep-level mining where the applicant is either a prospector, or the owner or lessee of the land' or the holder of the rights to precious metals. With regard the first category, section 7 of the Act expressly precludes Africans or 'Coloureds" from obtaining a prospecting permit. The Group Areas Act precludes Blacks from _the second category, that of owner or lessee of the land. The third category can only include prospectors, and Blacks are excluded by Section 25 (3) from such rights. Thus, now as always before, Blacks are precluded by law from participation in mining at any level where profits can be made.oh
Given this history of political exclusion from the workings of the economy, a newly elected majority based government will have to redress this historic wrong - and the nationalization of the mines and of large scale industry is one of very few techniques available to put right these faults of history. Simply repealing the discriminatory laws will not overturn the history of dispossession and exclusion - certainly it would make future entry into industry colour blind, but it is, after all these years of white capital accumulation and black exclusion, technically almost inpossible for blaCk entry into industry at any significant level at this stage. Only nationalization of existing white holdings can return ownership to the representative population, thereby overcoming the wrongs of history.
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2) Nationalization will help to restore a d tee of Economic Equit to the CBunEry "

This argument could possibly run as follows:

South Africa is a country of immense economic contrasts: on the one hand, it is the treasure house of the world in mineral wealth, and Africa's most developed industrial and commercial economy: on the other hand nearly half of the population live beneath the least generously defined poverty datum line, and this half is almost exclusively black. and has suffered generations of legal and prejudicial exclusion from the wealth of the economy.

And the situation of unequal income distribution is not improving: In 1965 the GINI co-efficient of South Africa was 0 56, ranking South Africa amongst the world's highest inequality nations: (see Table l).(

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By 1975 this had deteriorated to 0,68. certainly amongst the few nations of highest inequality on earth. In developed Western nations the range is between 0,35 and 0.41, as well as for economies of similar levels of development as South Africa:00

Further, in years just prior to the beginnings of National Party Apartheid, 1946/7, income per capita was R4,218 for white South Africans and R398 for Africans - showing a disparity ratio of 10.6 to one. By 1980, this had widened to R8,501 per capita for whites, and R657 for Africans, the ratio now being 12,9 to one. (See Table 2).(m

Table 2

RACIAL PER CAPITA INCGVIES AND DISPARITY RATIOS .

Income per capita Disparity Ration

(constant 1984 rands) (White to other)

- 1946/ 1960 1970 1975 1980

47

4,218 5,319

Over the years of formal apartheid, income gaps have widened between the priviledged white owners of the economy, and the disfranchised: disqualified Africans who filled the role of workers in that economy. Racial income distribution in 1980 showed that the 15,5% of the population that is white earned 61% of the total income earned, while the remaining 84,5% of the population earned 39% of total income. (see Table 3).09)

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% of Population %2 0f Income

Furthermore, governmental approach to the support of the poorest sections of the population has been dismal. Welfare expenditures have decreased on a percentage vof Gross Current Government Expenditure between 1949/50 and 1975/76: (see Table 0.00

IHE COMPOSITION OF GROSS CURRENT GOVERNMENT EXPENDITURE

I

IN SOUTH AFRICA 1950/50 - 1975/76 (Percenta ea)

'; 1949/50 1959/60 1969/70 1975/76

Agricultural services ;
and subsidies i i 6 7

Education 18 ' 19 19 19

Health and hospitals 13 13

Transfer payments . 10

Others ' lO

,Gross current expenditures
as a percentage of personal
income

'Welfare' expenditures as
a percentage of personal
income

Items 3, 4, 5 as a
percentage of personal
income

This has been in contrast to the international community of nations, where, in semi-developed countries like South Africa, Simkins has shown that social security has risen as a proportion of GNP, while it has fallen in South Africa: (see Table 5)&5)

Actual Social Security Predicted values
Expenditure as a Percentage from International
df personal income in South Africa cross-section

Thus we live in a country of innense and widening income inequality, with whites becoming increasingly wealthy and extending their control over the economy by this growth in wealth; while blacks are on average living under the poverty datum line and are still falling back, remaining relatively unsupported by Government welfare programmes that are, against international trends, falling rather than rising.

The argument for nationalization to restore economic equity to South Africa thus concludes:

If such a society is not rife for a socialist transformation, including a large-scale nationalization of industry, what country is? 'Only by restoring the wealth base of the economy, industry: to the ownership of the people at large, can the people be sure that this structure will be used for the redress of the conditions of inequality outlined, and -not used to perpetuate this inequality.

3)
Nationalization is necessa to deconcentrate indust I there
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This argument could run as follows:
The South African economy is massivily concentrated. As recently as 1983 seven giant corporations controlled nearly 75% of all conpanies listed on the JSE: - by 1987, concentration had gained such pace that 4 corporatiqu now control 83% of all JSE listed conpanies. (see Table 6). ’"
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This concentration is reflected in other barometer: also - in 1984.. all companies quoted on the 388 were controlled by only 2554 directors - and nearly 20% of all directorships were in the hands of just 65 men. (see Table 7) on

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Further, the major types of ’ultimate’ control of companies reveals ratios greatly different between South Africa and USA, Chile: Australia and Great Britain: (see Table 8).

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In other countries listed, management was tne biggest single factor of ultimate control except in Australia. South Africa sees comparatively little of this type of ultimate control. Pyramiding, the control of corporations by other corporations receding back into non-trading holding companies, is massive in South Africa and almost non-existant in the USA, Australia and Great Britain.

The argument continues:

Concentration by itself is bad enough for economic reasons. leading as it does to price collusion, difficulty of entry for smaller corporations into the market. and over - powerful employers bargaining with comparitively small unions.

But in South Africa this concentration takes on a more unsatisfactory aspect: for these huge corporations are now widely seen as colluding with apartheid government to form the overwhelming power base of Apartheid/Capitalism. The capitalists profit from the migrant labour system apartheid perpetuates and the huge government contracts available, and the Apartheid Government in turn profits by having a readily acquiescent industry that happily makes the guns, provides the taxes and busts the sanctions that together keep the government in power.

The argument concludes that the only way to dismantle the political and economic power of the capitalist owners of industry is for the state to obtain control of these industries by nationalizing them. Any other arrangement would leave a few enormously powerful corporations, with a long track record of siding with government against workers, in their present enormously influential position.

4) Nationalization will protect those who invest their lives, as opposed to those :50 invest their money, in inaustry

’The argument here would run something like this:

The interests of mineowners and mineworkers differ totally. For all the years of the existence of the mines, mineworkers have been paid wages that have only recently exceeded starvation levels. The mineowners, by manipulating a balance between migrant and local labour. have managed to build a massive and profitable industry (working profit for the consolidated goldmining industry was R6,8 billion in 1980, rising to R7,7 billion in 1986 and is estimated at R7 billion in 1987)bv on a pitiful wage structure.

Table 9 shows the relationship, all in Rands per month. of an Anglo American Underground Grade 4 mineworker’s minimum wage, excluding bonus, overtime and accommodation, from 1980 tn 1987, in comparison with an adjusted Household Subsistence Level (HSL) of a black family with four children living in Johannesburg, and also with an adjusted Household Effective Level (HEL) of such a family over the same time span.

The HSL measures such items as food for the five family members at home (assuming the miner lives in a hostel), housing, clothing, fuel, lighting and cleaning materials. It has been adjusted down to exclude food for the father/mineworker, as well as transport to and from work for him as he is assumed to be a hostel dweller.

The HEL nmasures the above amounts, but also makes provision for medicine, education, hire purchase and maintenance. It has also been adjusted down, as before.

The graph shows an initial relationship between wages and ESL, opening out over time until the wage figure now falls almost midpoint between HSL and HEL. The greatest improvement has come during the years of the National Union of Mineworkers (NUM) bargaining, and reflect the value of a strong trade union to confront management. Under even these conditions, mineworkers wages are lower that national average monthly wages for Africans?$ despite the massive profitability, and strategic importance, of the mining industry.

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The argument continues -
this situation is aggravated further by the enormous returns obtained by capitalist investment in, for example. Anglo American. Table 10 shows firstly; the wage increase: of an underground grade 4 mineuorker as a percentage of his 1980 wage. rising just over three times between 1980 and 1987. Secondly it shows the return on investment received by a person buying shares in Anglo at the midpoint share price of 1980, and selling them at the midpoint share price for 1987, plus the dividends he received over that - e0 period, (30 again as a percentage of 1980 return. While it is acknowledged that for some years shareholders received scant reward, it is argued that Capitalists do not invest for a short term gain and. over the full period, have received the equivalent of 25% compound return, much of which is non-taxable. The return on investment is 474%. while wages increased by 304%.

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The argument concludes -
Capitalist mineowners have a long history of a) paying starvation wages, the latter only recently being somewhat improved, and b) rewarding themselves and their fellow shareholders enourmously better than their workers. Anglo has 22609 shareholders and about 300 000 stafflal) plainly the business is being run for the benefit of this small group of shareholders. And despite years of pronouncements of social responsibility, there are no black directors in the mining houses let alone worker directors. Such a history cannot be expected to change with a change to a democratically based government in South Africa. the argument concludes. The only way to change Anglo, and for that matter all major industry, to an emphasis towards society rather than shareholders, is by making society its shareholder - ie, by nationalizing such companies.

5) Nationalization of industry is neEessary to protect, and increase, the numBEr of 3055

.Table 11 shows that opinions surveyed in Port Elizabeth's black townships in 1987 showed that by far the major problem black people face, is unemployment and lack of a job.cv9 Second to that comes low wages.

THE MAIN PROBLEMS OF BLACK PEOPLE IN PORT ELIZABETH Feb - Apr 1987

1. Unemployment and lack of jobs
2. Low wages
3. Racial discrimination and racial hatred
4. Apartheid policy (eg. Group Areas Act)
5. The police killing and beating people
6. The fact blacks don't have the vote
7. Shortage of housing MAJOR
8. High rents PROBLEMS
9. The State of Emergency
10. Black education system
11. The detention of leaders
12. High cost of living - eg. high cost of food
13. Detention of pupils and teachers .
14. Barbed wire fence around New Brighton
15. Black local authority/town council
l6. Unrest and riots
l7. Miolence by one black group on other b1ack groups
18. Schools boycotts SECONDARY
19. The burning (necklacing) of people PROBLEMS
20. Hospitals, clinics and health treatment
21. Crime rate in your area
22. Bus transport system
23. Beach segregation MINOR
24. Consumer boycotts PROBLEMS

Ci?
'Ihis situation is not likely to get any better. Even today, Table 12 shows that, on COSATU calculations, "The only sectors in which enployment in South Africa continues to grow are government, and finance and insurance".(3't)

South Africa has a large wotkin; class employed in the various sectors of the economy. As the economy has developed manufacturing has become the most im. I portant sector of employment.

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Projections into the future are endlessly bleak: the Institute of Future Research at the University of Stellenbosch calculates that, should South Africa have a GDP growth rate of 2.1% per annum to the year 2000, there will only be 8.1 million formal sector jobs with 17.9 million job seekers. The fortunate will have a formal sector job - the test can, at best, hope for some sgrt of an existence in the "peripheral sector". (see Table 13).(15

LABOUR SUPPLY VERSUS DEMAND

1960 1980 19851) 2000 2) -

SCENARIO SCENARIO

I II

mil mil

mil. mil.

Supply of labour. 17,9

Demand in modern
sector of economy
(developed sector)

Peripheral sector
(less developed
sector).

Peripheral sector
as a % of supply

9,4

8,5

Source: Dostal, E. 1984. Manpower: Supply and Demand 1980 - 2000. Institute for Futures Research Bulletin. Stellenbosch. Updated 86.

Notes : Assumptions Scenario I: 3.0% average annual growth between 1980-2000.

Assumptions Scenario II: 2,l% average annual growth between 1980-2000.

Thus a future democratic government in South Africa will inherit a country awash with people unable to find employment in the formal sector.

What can be expected of big business in an attempt to combat this problem? The anwser is - nothing, voluntarily.

Anglo’s Clem Sunter is explicit - if you want First Logic Economy businesses to be able to compete in the international market, and thereby to earn foreign exchange, you must expect them to employ less rather than more people. Job seekers must expect, at best, job growth in Second Logic Economy organisations, probably what the Stellenbosch University Institute calls "the peripheral sector".(ab

Thus a future government, committed to rapidly expanding black formal sector employment, will find a highly concentrated industrial seetor equally committed to reducing ’this type of employment. And as the pressures on such a govetnhent will prove immense, and industries evasions of the issue probably equally vast. pressure will build on such a government to nationalize major employers simply to create jobs in the short term.

6) Nationalization will spread the democratic goals of the new society into inaustry ana the economy.

When Ben Turok motivated the nationalization clause of the Freedom Charter at the Congress of the People in 1955, he did it with these words:

It (the Charter) says ownership of the mines will be transferred to the ownership of the people. It says wherever there is a goldmine there will no longer be a compound boss. There will be a committee of workers to run the gold mines. Friends, we also say that wherever there is a factory and where there are workers who are e exploited, we say that the workers will take over and run the factories. In other words, the ownership of the factories will come into the hands of the people ..... Let the banks come back to the people, let us have a people's committee to run the banks.cn)

This spirit takes nationalization not to mean the transfer of ownership of industry from capitalist shareholders to some "new exploiting class" who thereby re-begins the process of "capital accumulation", albeit in other hands. Rather nationalization leads straight on into "socialization", which is the transfer of ownership of major industry "to the people" who can then "assign the means of production to this or that use, dispose of the objects of labour and control the social process of accumulation..... have the power to direct the organisation and direct the labour process".(ug Worker shareholders, now seen as "an explicit attempt to weaken unions" 6'0. , would become part of a broader system of democratising industry. These aspirations are well put by a British coalminer in 1919:

In deciding what is to be the character of mines administration it is necessary to remember that workmen are more than machines, or even 'hands' as they are so often terms. Industrial unrest is a question about which everyone is concerned, yet there is a general lack of appreciation of what is the real root of this unrest. In the past workmen have thought that if they could secure higher wages and better conditions they would be content. Employers have thought that if they granted these things the workers ought to be content. Wages and conditions have been improved - but the discontent and the unrest have not disappeared, and many good people have come to the conclusion that working men are so unreasonable that it is useless trying to satisfy them, The fact is that the unrest is deeper than can be reached by merely pounds, shillings and pence, necessary as they were. The root of the matter is the straining of the spirit of man to be free. Once he secures the freedom of the spirit he will, as a natural sequence, secure a material welfare equal to what united brains and hand can wring from mother earth and her surrounding atmosphere. Any administration of the mines under nationalisation must not leave the mineworker in the position of a mere wage-earner, whose sole energies are directed by the;will of another. He must have a share in the management of the industry in which he is engaged, and understand all about the purpose and destination of the product he is producing: he must know both the productive and commercial side of the industry. He must feel that the industry is being run by him in order to produce coal for the use of the community, instead of profit for the few people. He would thus feel the responsibility that would test on him as a citizen, and direct his energies for the common good.

This ideal cannot be reached all at once owing to the way in which private ownership had deliberately kept the worker in ignorance regarding the industry: but as that knowledge, which has been denied him, grows, as it will do under nationalisation, he will take his rightful place as a man. Only then will labour unrest, which is the ’present hope of the world, disappear. The mere granting of the 30 per cent and the shorter hours demanded will not prevent unrest, neither will nationalisation with bureaucratic administration, Just as we are making political democracy world-wide, so we must have industrial democracy, in order that men may be free.c"9

The argument concludes:

A correctly executed nationalization compaign, ending in what Davies calls Socialization, would effectively meet the democratic aspirations of the people held since the Congress of the People in 1955, to date: it would carry through the process of democracy from the political sphere into the economic, and would thus be consistant with the will of the people.

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D) ARGUMENTS AGAINST NATIONALIZATION

1) It will not be possible to pay full compensation for nationalizing industry. """’l’.’dd"t"-""’f’tt-’t-"

Two British economists in the late 1930’s, Nicholas Kaldor and John Hicks, proposed a "compensation criterion: to be considered when any major change in the economy is being considered. The criterian demanded that those who would benefit from the change (the "gainers") should be willing to pay those who would be hurt by the change (the "losers") more than the losers should be willing to pay to retain the status quo. Thus this "compensation criterion" states that a change would constitute an improvement in social welfare only if those who benefit from the change compensate those who would lose by the change: and still be left with some "net gain".

Following this reasoning, the Zambian Government compensated Anglo when they purchased 51% of Anglo’s Zambian copper mines, and the Zimbabwean Government paid Nedbank for their share in Nedbank’s Rhobank subsidiary. Compensation is seen as a necessary condition for nationalization. Nationalization without compensation is seen as theft.

But defenders of the status quo would give three reasons why nationalization with full compensation is not possible:

Firstl I no government could afford to pay full co nsation to
naEionalize SK’s ihausEry "EEEL"’T"TT"’

We will -consider the cost of nationalizing just the four main conglomerates mentioned in section C3, namely the Anglo American Corporation, SA Mutual, Sanlam and the Rembrandt Group Ltd.

Table 14 shows a net asset value for the Anglo American Group Holdings of R24076 million, and a net asset value of the balance of the holdings (held by other shareholders) of R42107 million. This gives a total net asset value of all equity of companies controlled or associated to the Anglo American Group of R66183 million.

Also on Table 14 are the calculations of the market valuation of the Anglo American Group as at the 3lst March 1987, being R15773 million, while the unheld position of the equity is calculated at R27586 million, giving a total market value of all equity of companies associated with, or controlled by, the Anglo Group as R43359 million.(")

The SA Mutual Life Insurance Corporation (Old Mutual) has a total asset structure worth R27 billion.(u3

South African National Life Assurance Company (SANLAM) has a net asset value of R9316 million.en9

The Rembrandt Group Limited, the principle quoted holding company of the Rembrandt trading and investment interests, has a net worth of R3608 million.e"5

This gives a possible range of figures for a compensation payout as follows (Table 15) of somewhere between R58 billion and R106 billion, depending on valuation employed. We will put these figures into iperspective later.

Table 15

Possible Compensation to be paid

for Anglo American, Old Mutual, Sanlam and Rembrandt

1) At Net Asset Value

Group Holdings 25 Including Balance

of Equity

Anglo American Group R24076 mil R 66183 mil

Old Mutual 27000 mil 27000 mil

Sanlam 9316 mil 9316 mil

Rembrandt 3608 mil 3608 mil

R64000 mil R106062 mil

At Market Value

Group Holdings

Anglo American Group R15773 mil R43359 mil

Old Mutual 27000 mil 27000 mil

Sanlam 9316 mil 9316 mil

Rembrandt 6003 mil 6003 mil

R58092 mil R85678 mil

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But we must consider a cheaper route to nationalizing these companies, and assume that the state will purchase a controlling shareholding only, and not purchase the full equity. What would this cost?

Let us start from) the bottom: the Rembrandt Group is a classical pyramid (Table 16)(M with four companies quoted on the JSE, the upper three of which, namely Rembrandt Controlling Investments Limited, Technical Investment Corporation Ltd, and Technical and Industrial Investments Ltd, exist only to hold just over 50% of the shares of the company below it. They appear to have no other assets. The top quoted company. Technical and Industrail Investments Ltd, is in turn held 51% by the Rembrandt Trust, and the Rupert Family Trust (Pty) Ltd, both unquoted, and comprising the vehicle through which it is widely assumed the Rupert and Hertzog families effect control over the conglomerates below them. Thus Anton Rupert, holding only the equivalent of 8.6% of the net worth of Rembrandt Group Limited, in fact owns and controls the entire Rembrandt empire.

This of course makes expropriation both simple and comparatively inexpensive. A measly R320 million could purchase the top trusts, and with it, quite legally and adequately, would go ownership, and control, of the entire group.

The Old Mutual and Sanlam are more complex. Both are mutual life assurance companies, and as such have no "shareholding" in the JSE sense. The Old Mutual is in fact "owned" by 1,3 million life policy holders, or members, and about 2 million pension subscribersxyg

Sanlam is "owned" by over 2 million policy holders.c9)

Purchase of such organisations would presumably be through purchase of 51% of each policy, and such purchase would add up to R18158 millionfsv

Control of the Anglo American Group is innensly delicately structured. Table 17 (39) shows the breakdown of AAC shareholdings. De Beers, itself 34% held by Anglo (and thus controlled by Anglo, as the balance of its shareholding is very widely spread), owns 38,1% of Anglo’s shares (in) , held through nominee companies. The next biggest shareholding, the Oppenheimer family interests, represented mostly by E. Oppenheimer and Co (Pty) Ltd, own about 8.2% of the balance of the equity. The next biggest shareholder is the Old Mutual, with 7,7%. Thus, through an ownership of only 8,2% of Anglo and nothing of De Beers, the Oppenheimer family control both organisations. Only De Beers own a bigger block of shares in Anglo than the Oppenheimer interests, but as it is controlled by Anglo through a cross share-holding, the Oppenheimer control is effected by a combination of a minority shareholding, and two boards of totally loyal and sympathetic directors.

To purchase control of such a conglomerate is both innensely expensive and delicate. For the expropriation of the Oppenheimer shareholding: unlike the Rupert one discussed above, will not give you control in the face of hostility from the balance of the shareholders and directors.

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It is my belief that only by purchasing over 50% of the equity of the AAC, would a newcomer be assumed of control. Oppenheimer has guarded his interests with enormously more subtlety than has Rupert. While each own the equivalent of 8% of their organizations, the Oppenheimer ownership is constructed such as to be almost impossible to expropriate successfully as is. 5

Thus, to purchase control of the above organisations, I calculate would cost, at a minimum:

Rembrandt R 320 mil
Old Mutual and Sanlam 18158 mil
Anglo American ’ 12050 mil
R 30528 mil

and at a maximum, R106062 mil (see previous)

Let us put such figures into perspective.

The total assets of the South African Banking Sector, including the Reserve Bank, the former National Finance Corporation, the Corporation for Public Deposits, the discount houses, the Land Bank, the Commercial Banks (First National, Standard, etc), the merchant banks and other general bankin institutions amounted to R83l74 million at the end of March 1987.cu This was not net of liabilities - it was total assets. At the same date, the total assets of all Permanent Building Societies amounted to R28377 million.Qua

The entire South African Central Government Budget expenditure for 1987 is set at R463l8 mil.(77) The larger of the figures set as a compensatory figure, namely R106062 million, is almost equal to the total assets of the entire banking sector plus the permanent building societies, or almost equal to our entire central budget expenditure for the three years of 1985/86, 86/87 and 87/88 combined.

Plainly, a government who can only budget R781 million for housing in 1987/88 would be hard pressed to return to its taxpayers and ask for a minimum of 39 times that to expropriate industry.

The argument thus concludes - no government can afford to pay full compensation to nationalize SA’s industry.

Could the money be borrowed, and a loan serviced, for such a purchase? Consider the case of Anglo, again. At the minimum purchase price of RlZOSO mil, on a 20 year loan at, say, 5% per annum, repayments would amount to nearly a billion a year. This is twice the amount Anglo paid out as a dividend in its most successful year ever, l987.c"8 Suph a figure would shatter Angle’s policy of capital expenditure and investments, and would doubtless. should a few bad years follow consecutively. destroy great chunks of its fabric.

Secondly, the opportunity cost of such a purchase is too high
Economists are keen to tell us that every expenditure has an opportunity cost - that is the cost we must pay to forgo parchasing other items the money could have been used for. If I spend R1000 on a holiday, I must forgo my opportunity to buy a new TV set. That is the opportunity cost of the purchase.

Any government coming to power and committed to the Freedom Charter will not only be committed to considering nationalization of industry, but also will find itself committted to other clauses of the Freedom Charter which include:

the redivision of land;
the helping of the peasants with implements, seed, tractors and dams: .
free, compulsory, universal and equal education for all:
the ending of adult illiteracy by means of mass state education plans:
the lowering of rent and prices, and the making available of plentiful food:
a state-run preventative health scheme;
free medical care and hospitalization for all:
decent housing for all:
the demolision of slums, and the creation of new suburbs with roads, transport, lighting, playing fields, creches and social centres:
state care for orphans, the aged, the disabled and the sick.

Let us look at some of the costs involved in such programs:

Housing:
The Urban Foundation estimates the need for an additional 2579825 housing units by the year 2000.(t5) The NBRI calculates that, in the six years 1980 - 85, the state financed an average of 24029 houses per year.(Mn At this rate a shortfall of about two million houses should exist ’by the year 2000 - at the Urban Foundations 1985 estimate of the cost of the lowest possible housing unit, of Rl0,000 for each, to make up this shortfall would cost, in 1985 rands, R20 billion.

Education:
In 1984/85, 6,7 times as much money was spent educating a white child compared to an African child.(&") To equalize education across the races, now, would thus require over R20 billion extra each year.

And on it goes. South Africa had a total central government expenditure of R33000 million in 1985/86, R37,500 million in 1986/87 and a proposed R46,318 million for 1987/88. The burden of such social progrannes as outlined in the Freedom Charter easily and handily overwhelms these budgets. The _nationa1ization of industry can only be bought at the opportunity cost of less of all of the above expenditures.

The argument concludes: the opportunity cost of nationalization with compensation is too high for a future government to bear.

Thirdly, to pay such compensation might just help create another power se as unaccep a e as nopo y in us ry 13 now

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This argument would go: Nationalization with compensation would result in ownership of industry changing hands - but what would happen to the vastxe amount of money now placed in the hands of yesterday’s capitalists?

Duncan Innes has noted the irony that Zambia’s purchase of 51% of the Zambian Anglo American Corporation, involving full compensation to Anglo in US dollars without any restriction on their repatriation abroad, led to the creation by Anglo with there funds of the then Bermuda based Minerals and Resources Corporation Ltd (MINORCO), which dgring the 1970’s assumed major responsibility for the group’s investment program in Latin America, Canada and the US, and b the 1980’s had become the largest single foreign investor in the US.(5$

This is just one example of business’s remarkable ability to re-form and re-emerge.

This argument goes on:

Yesterday’s capitalists must be expected to invest their compensation - surely thereby building up another power base, as likely as not as unacceptable as the last one? What happens then? Further nationalization with compensation? And the nation accepting bonds on itself in an infinite regress?

We have considered three arguments why nationalization with compensation will not work:

firstly, the amounts of money involved are too great;

secondly, the opportunity costs of other expenditure foregone is likewise/too great: and

thirdly, the future government will in all probability just be landing itself back in the same position, five years later.

Thus it is concluded that nationalization with compensation will not work.

What then of nationalization without compensation? Surely this is the answer?

2) Nationalization without compensation could well destroy the economy
Defenders of the status quo would give three reasons why nationalization without compensation could well destroy the economy. Firstly. nationalization without compensation could destroy the stock marEet, the short and long term insurance industry: the unit trust industry, pen510n funds and p0531BIy even the SSnEE

This argument would run:

Nationalization without compensation can sometimes have devastating, and unexpected, consequences. For example, the Frelimo government felt that the nationalization of all rented property would help to bring a powerful asset base to their government, and would help to solve the housing crisis and to lower rents. But after nationalizing this property they found that the entire banking sector had collapsed, because it relied not only on rents on its properties and investment, but on mortgages and securities held on clients properties.(WM

It is a fair prediciton that, if government places a nil value on shares in Anglo American by confiscating them without compensation, the stock market may well take this to be the real value of the shares, and wheelbarrows will be needed to pick up unwanted scrip on the pavements of Diagonal Street. To substantiate this - the JSE overall index has dropped 25% in the two weeks between the 16th and the 30th of October 1987 - ie, on average every share on the JSE is now worth 25% less than two weeks ago - and there is no evidence whatsoever that any major corporation is to make significantly less profit, or will cut its dividend. If anything, the opposite is the case. But Stock Exchanges turn on confidence, and strange issues affect that.

Nationalization without compensation could readily precipitate a collapse in the JSE that could cause temporary, or even permanent, closure. What follows from this?

Firstly. the following industries have the following percentages of their assets held in shares of JSE listed companies: Table 18(5cD

Table 18	% of Assets ""_"’ in JSE shares
Long term (Life) Insurance Companies	41%
Short term (Property, vehicle, business) Insurance Companies	19%
Private Self Administered Pension Funds	24%
Official (Government) Pension Funds	0%
Unit Trusts	93%
General Banks	1%

Such a situation would see ithe immediate destruction of the unit trust industry; the halving in value of all life insurance policies overnight, with the resultant damage to this industry and its massive investment potential: and the ironic twist that all the people who have fought apartheid and held a private pension would see it drop in value by at least a quarter, while policemen. soldiers and development board officials would pick up undamaged pensions! 27 ,