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COVER STORY

Rude awakening

Business must face some hard issues defined by Mandela

Three major forces have become pre-eminent in the shaping of a new SA: government, the ANC and private business. In the breathless activity of recent months, following the opening of Parliament address by State President F W de Klerk in February, government and the ANC appear to be finding common ground on a variety of central issues which previously would have defied the imagination. Now, paradoxically, it is among private business — which had prided itself on being in the forefront of social change — that reticence to participate in its implementation seems most apparent.

For there are indications from a straw poll of delegates to last Wednesday's high-profile gathering in Johannesburg of ANC leaders and business representatives that the meeting, designed to facilitiate communication between them, failed in its objective. Once platitudes were dispensed with, delegates talked past one another; businessmen complained that they didn't receive the assurances on nationalisation and redistribution which they had wanted to hear; ANC officials felt that businessmen, anxious to express a sense of self-righteousness, didn't listen as they had hoped.

The inherent nature of business conservatism, especially noticeable among senior executives who have little personal experience at the rockface of industrial relations negotiations, illustrated an essential divide. Whereas former Anglo chairman Gavin Relly emphasised in his keynote address the "linkage" effect of the tax system in "blending competitive individualism and broader societal co-operation", ANC deputy president Nelson Mandela went much further.

"If we are genuinely interested in ending the old social order and bringing in a new one, characterised by the notions of justice and equity, it is quite obvious that the economic power relations represented by the reality of the excessive concentration of economic power in a few white hands has to change," he argued. "We make this demand . . . because we cannot see how it would be possible to pull our country out of the endemic crisis, in part caused by and exemplified by white control of economic power, while at the same time we perpetuate this power structure."

This is the nub of it. When all the sentiments of the need to restore investor confidence, maximise economic growth and ensure a fairer wealth distribution are laid bare, the methods for reaching common goals differ intrinsically.

"Those who allegedly advocate an

SAME PLACE

In years to come, when students of SA history try to unravel the fascinating relationships between business and governments, they may wonder at the curious symbolism which Johannesburg's Carlton Hotel has come to represent. Eleven years ago it was the venue for an unprecedented meeting between government and business leaders; last week it was the venue for an unprecedented meeting between ANC and business leaders.

There is really no symbolism apart from the fact that the Carlton is owned by Anglo American, SA's dominant corporation. Its then chairman Harry Oppenheimer featured as prominently in 1979 as former chairman Gavin Relly featured in 1990. And there might also be symbolism in the fact that in 1979 the Carlton was operated by a US-based multinational; in 1990, following divestment, Anglo now manages the hotel itself.

At both events, businessmen were filled with a sense of occasion. In 1979 they were honoured to have been invited by the government in power; in 1990 they paid to hear speakers from an organisation regarded by many not so much as a government-in-exile as a government-in-waiting. Business has remarkable resilience, and businessmen a remarkable capacity to adapt to the realities of power. As businessmen fawned upon then Prime Minister P W Botha in 1979, so they accorded respect to ANC deputy president Nelson Mandela last week.

Turning back the pages of history provides a record of opportunities lost. In 1979 Botha was treated to applause when he proclaimed: "The greatest good in Southern Africa is not order for its own sake. A system in which freedom is dead is meaningless and a system in which material welfare is limited to a few within a sea of poverty is not only indefensible, it is objectionable." It could almost have been Mandela speaking in 1990.

In 1979 Oppenheimer responded: "This marks a new relationship between government and private enterprise. I see more reason for real hope for this country now than I have seen for many years." It could almost have been Relly speaking in 1990.

What were the issues then? A commitment to "the principles of free enterprise", implementation of the De Kock commission report on monetary policy and the Wiehahn commission report on industrial relations policy, the formation of a development bank and of a small business development corporation.

So enthusiastic was Rembrandt chairman Anton Rupert about a small undifferentiated or pure free market approach to economic management are criticised on the grounds that this does not ensure that the benefits of growth "trickle down' at all or sufficiently fast to the disadvantaged," said Relly. "However, there is now overwhelming evidence from around the world that the interventionist or dirigiste alternative which these critics propose does not achieve these ends either but on the contrary causes a great deal of economic damage."

For his part, Mandela was specific. Referring to the concentrations of economic power on the JSE — "it is said that less than 10 corporate conglomerates control almost 90% of the shares listed" — he identified as an imperative the need to "deracialise the exercise of economic power" if white domination is to end. He asked whether lessons might not be drawn from the anti-trust laws of the US or the Monopolies Commission in the UK "to address the issue of how to ensure that there is no unhealthy over-concentration of economic power".

Thus he opens a debate which can place business at odds with itself. The big corporate powers may sit uncomfortably on hearing such views, for it is their structures which are threatened. But to those outside illustrious boardrooms, among smaller businesses and even within government, has he not touched on a theme which needs to be vigorously pursued if free enterprise is yet to flourish in SA?

There are all sorts of lessons to be drawn from "overseas experience". Relly and Mandela differ in those experiences which they respectively choose to emphasise, but in the process they also start identifying a system of common values which needs to become less conceptual and more concrete.

There are several such issues, primarily in the economic sphere, which cut across the traditional divisions of party politics. In addressing them, those divisions will themselves start crumbling. Then the political points of departure will focus increasingly on resources rather than race, just as between say the Republicans and Democrats in the US or the Conservatives and Labour in the UK.

It is necessary that this happen, not only because existing political groupings are based around the core issue of apartheid — thus rendering the existing groupings obsolete as apartheid is abolished — but also because it facilitates future groupings of interests across the colour line. For a society historically divided by colour, that is a desirable objective in itself.

When the ANC was excluded from debate, a constructive dialogue developed between government and business. So cosy had it become that unanimity between them was perceived as truism and translated into policy — strategies for curbing inflation, the need for privatisation and deregulation with less interference by the state in a market economy, reductions in the tax rate and so on. Now come inputs from the ANC which shake conventional wisdom, and which particularly shake big business.

What should be the role of the state in supplying social services? How are improved facilities for health, education and pensions to be funded? Is business to be burdened with heavier regulation and taxation or should it be left primarily for markets to allocate resources? How are private property rights to be entrenched against the demand for a more equitable distribution of land?

In attempting to supply answers, far more is required than the sort of jamboree hosted last week by "business leaders" who for the most part comprised representatives of SA's largest corporations. From accounts of the meeting, held behind closed doors, they were singularly unprepared for the ANC assault on economic power concentrations. This was not propagation of nationalisation; it was the stuff of free enterprise. And it relates directly to the sort of issues which now will come to the fore.

As the national debate tends increasingly to focus on resource allocation, there are all sorts of areas where individual businessmen, government repre-

DIFFERENT TIME

business development corporation, *FW* recorded at the time, that he proposed a partnership between the state and the private sector in which each would contribute R50m to its initial capital, and immediately committed his group to a R5m contribution. "You cannot create goodwill or wealth by mere giveaways," he added, and if this opportunity was not taken "we are all doomed".

On the morning after the 1979 Carlton conference, the *Rand Daily Mail* reported: "Mr Harry Oppenheimer yesterday gave qualified support to the Prime Minister's plan for a constellation of Southern African states. His backing was conditional on the constellation developing into a bastion of freedom — and its establishment winning Western approval . . . Mr Oppenheimer said Mr Botha's plan had 'imagination and charm'.

"He warned that the constellation would not succeed if it became an embattled fortress in a hostile world. For that reason its strength and cohesion would depend on improved relations with the Western world, and he called on the Prime Minister to 'mend fences with countries who are our friends'. Mr Oppenheimer also emphasised his belief that if SA business was to invest in other states of the proposed constellation, it would be necessary for guarantees to be provided against possible losses through nationalisation.

Who's looking over PW's left shoulder?

"The conference was marked by an absence of criticism of the Government's policies. Crucial issues such as influx control and political rights for blacks were ignored."

Eleven years hence, how will the record of the 1990 Carlton conference stand the test of time?

suasions may find common ground. The question of ***economic power concentrations*** is certainly among them.

Relly argued, understandably from his position, that there was a tendency to confuse "bigness with monopoly". But ANC spokesmen won't allow the issue to be so lightly dismissed and, like it or not, it is going to feature continuously on the negotiation agenda. It hurts because it is so well grounded in the free enterprise ethic as practised from Japan to the US; no tag of socialism or nationalism can be attached to a concept related to the break-up of massive private sector conglomerates.

Whatever the exact percentages of corporate control — McGregor says in *Who Owns Whom* that six institutions own some 80% of listed shares — it is common cause that the JSE is dominated by Old Mutual, Sanlam (both, being mutuals, already belonging to "the people"), Liberty, Rembrandt, Anglovaal and Anglo. There are all sorts of interlocking holdings, for example Mutual into Barlows and Anglo, Sanlam into the Gencor and the Sankorp industrial interests, Liberty and Rembrandt into a range of financial services and industrial holdings, Anglo into a broad mining, industrial and financial services base from Southern Life and First National to AECI, Samcor and Tongaat Hulett (*FW* Feb 22-28).

One effect of these concentrations, where straight lines can be drawn through the holdings of life offices into affiliated banks and industrial conglomerates, is that the latter have ready access to equity capital (from the life offices) and loan capital (from the banks) for expansion or to tide them over difficult periods. The mere fact of having powerful parents cushions them from the blows, such as severe interest rate volatility, which can prove fatal to more mortal companies.

Without adequate equity funding, the independents — no matter how innovative their strategies or competent their managements — are particularly hard-pressed by a prime rate which has moved as high as 25%. Whether the independents are forced to shrink their operations, or whether they actually go to the wall, ***jobs are destroyed***.

The process is exacerbated by what the institutions would describe as "risk-averseness", ie reluctance to invest equity in fledgling or even fairly mature businesses when their gearing exceeds defined ratios, or advance loans against

There are good reasons for this — institutions have their own shareholders and policyholders to protect, not to mention a lack of industry-specific expertise — but the undesirable consequence is that ***barriers to competition*** become more formidable.

Moreover, in pursuit of "prudence", the institutions feel quite comfortable with the hothouse effect which their cash flows have on share prices. There is a dire shortage of investment funds where they are needed (eg housing) and a simultaneous shortage of investment opportunities where they aren't (eg scrip).

As a result, the contractual savings of millions of policy and unit trust holders, as well as pension and provident fund members, are ploughed persistently into the same handful of blue-chip stocks which the institutions trade among themselves. Though it enables fund managers to report capital growth, for the benefit of those they represent as trustees, the broader ramification of the nation's savings base being used in a paper chase is to deflect capital resources from ***encouraging new industries***.

"The essential issue is not the redistribution of consumption, but the redistribution of investment," believes Cosatu economic adviser Stephen Gelb. "Restructuring private sector investment would require direct intervention by the state to restucture the financial networks comprising the conglomerates. This would best be carried out not by nationalisation, but by the use of anti-trust policy, specifically the dissolution of the holding companies which are the critical feature of SA's conglomerate structure."

The "controlled sale" of the holding companies' shareholdings in operating companies would achieve a more equitable ownership distribution, he contends, especially if affirmative action was used to promote black ownership of business at the same time: "This policy would produce a private sector that remained productively powerful, but was far less concentrated, and thus more likely to be subject to state intervention. This is not to deny that the conglomerate structure has its own benefits, relating to economies of scale and of information."

The ANC has plenty of precedent from which to draw. In the US the most celebrated break-up of a conglomerate was that of AT&T, while a vigorous anti-trust policy — as in the UK — regulates

restructuring after the War and which then went on to produce the latter-day economic miracles, creditor banks feature prominently as equity owners.

They also nominate directors and, particularly in West Germany, have played an active role in the affairs of companies. Their tendency, unlike the "short-termism" of which US and UK fund managers are accused, has been to hold back on dividends so that capital growth could be maximised.

"Aren't we needing the same type of restructure?" asks the senior executive of a battling but still sizeable independently-owned company. "We have the wrong approach in our banks and financial institutions toward the funding of venture capital, and both are guilty of risk-averseness. Venture capital funding is most definitely not loan funding; it is the funding of a business by equity, therefore enabling the bank or institution to look at capital growth and not the interest return on a loan."

Another dimension to the argument on power concentrations relates to ***inflation***. An economy heavily dominated by major industrial groups lends itself, if not to price collusion, then a tendency whereby limited competition invites suppliers to mark prices at levels which smaller companies happily follow. This feeds on itself so that, irrespective of an individual firm's costing, it is ingrained in the national psyche that price increases at least in line with cpi increases are acceptable.

A recent article in the London *Financial Times* is instructive. Reporting on Brazil's "economic shock plan" to tame inflation, it quotes the local director of a US chemical giant: "The basic secret of inflation was to constantly anticipate cost increases. You could ram the price you liked down your clients' throats." And a banker remarked: "Companies are very inefficient. They have been allowed to stay that way because they earned a lot, got fat, by making more money out of inflation than by production."

For years, SA business has tended to lay the blame for economic malaise at government's door. If it wasn't apartheid it was bureaucracy; if it wasn't bureaucracy it was overregulation; if it wasn't overregulation, it was monetary policy. Now the ANC is forcing business to look to itself.

And it is neither unhealthy nor undesirable that it does so. **ALLAN GREENBLO**