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John Train

Paradoxes of disinvestment:

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MONEY MATTERS -

by

Talks with Bishop Tutu and other black leaders

The bishop is a small, eloquent, passion-
atc, delightful man, whom onc is drawn
to instantly, like Barry Fitzgerald for
thosc who remember the old films. |
spent some hours with him on a recent
trip to South Africa to talk to black lead-
ers, and loved every minute of it. | also
visited black tradc unionists and politi-
cians, black writers, editors, and others,
covering the political spectrum from
frec-enterprisc unionists of roughly the
AFL-CIO persuasion to Marxist revolu-
tionarics. I came back with some opin-
ionsâ\200\224including that apartheid is crucl
and unjust but is bracking upâ\200\224and
many questions. First, however, some
definitions, and a sketch of the paradox-
cs of this problem, which onc neds to
understand to make some sensc of the
encounters that follow.

thn most people talk about disin-
vestment, they usually mean sell-

ing off stock in Amcrican companics
doing business in South Africaâ\200\224IBM,
letâ\200\231s say. There is a more accurate word
for this transaction: divestiturc or divest-
ment. Paradox number one: if Harvard,
a concerned investor, sells its stock, pre-
sumably to a less concerned investor,
this reduces the pressurc on that com-
pany to perform responsibly, and ordi-
narily has no other cffect on the
companyâ\200\231s operations.

Another usc of this term is in â\200\234disin-
vestment campaignâ\200\235 (perhaps more
properly divestiture campaign): urging
fiduciaricsâ\200\224c.g., university trustcesâ\200\224
to scll stock in companics that do busi-
ness in South Africa. Paradox number
two is that a fiduciary owes his alle-
giance to the law and to the interest of
his beneficiary, not to the moral or politi-
cal judgments of third partics. A fidu-
ciary hcars exhortations from all sides:
unionists arc against nonunion compa-
nics; some people arc repelled by com-
panics in defense but think itâ\200\231s uscful to
trade with Russia, others belicve the op-

posite. Christian Scientists are against health care stocks. Myself, I'm not comfortable with cigarettes or gambling (in-

Bishop Desmond M. Tutu: a moral gadfly, keeping up the pressure and saying things that need to be said.

cluding brokerage houses that push commodity speculation). Most people in South Africa think economic growth there is a key to black progress. I like economic growth in Harlem but many investors don't want that involvement. The fiduciary can't listen to all these

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voices. (Sometimes, indeed, such campaigns are motivated by politics or subjective purposes.) He is entitled to rely

on national policy, constitutionally promulgated. That's what our laws are for. Our national policies are generally sound; at least, the fiduciary is entitled to assume so. So the moral-issue cam-

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paigner should not push the fiduciary too hard, but rather seek his remedy through legislation.

Then comes literal disinvestment: a company doing business in South Africa gets out. What happens then? Less than one might think. Pan Am, for instance, recently discontinued its Johannesburg run. While I was there South African Airways announced its latest results. Predictably, they were up, thanks to lower competition, and the company said it is considering increasing its North American service. Similarly, ASEA, a large Swedish company, disinvested, disposing of its South African subsidiary. The locals were delighted: they snapped it up at a bargain price. If ABC Manufacturing opts out, it doesn't de-

molish the local factory or put it on a barge and float it back to Pittsburgh, it finds a foreign or local buyer.

Now, leaving out portfolio holdings, where you can only sell to another buyer on the stock exchange, and bank loans, which I'll discuss later, all American direct investment in South Africa is worth a few billion dollars. (The figure is not known accurately.) All of the stocks sold on the Johannesburg Stock Exchange are worth about \$60 billion. There is estimated to be a good \$4 billion in pent-up buying power of South African insurance companies, pension funds, and other institutional investors there, who are not allowed to invest abroad, and are eager to buy solid foreign-owned businesses. Investment banking firms in Johannesburg are handling these transactions as they come along, and pocketing substantial fees. Lists have been published of foreign-owned companies that may be up for sale, and local interests are approaching them in the hope of getting bargains. Indeed, the local government might step in, by expanding its industrial development company, and participate in the feast.

So paradox number three is that if an American company goes out of business in South Africa, little may happen on the