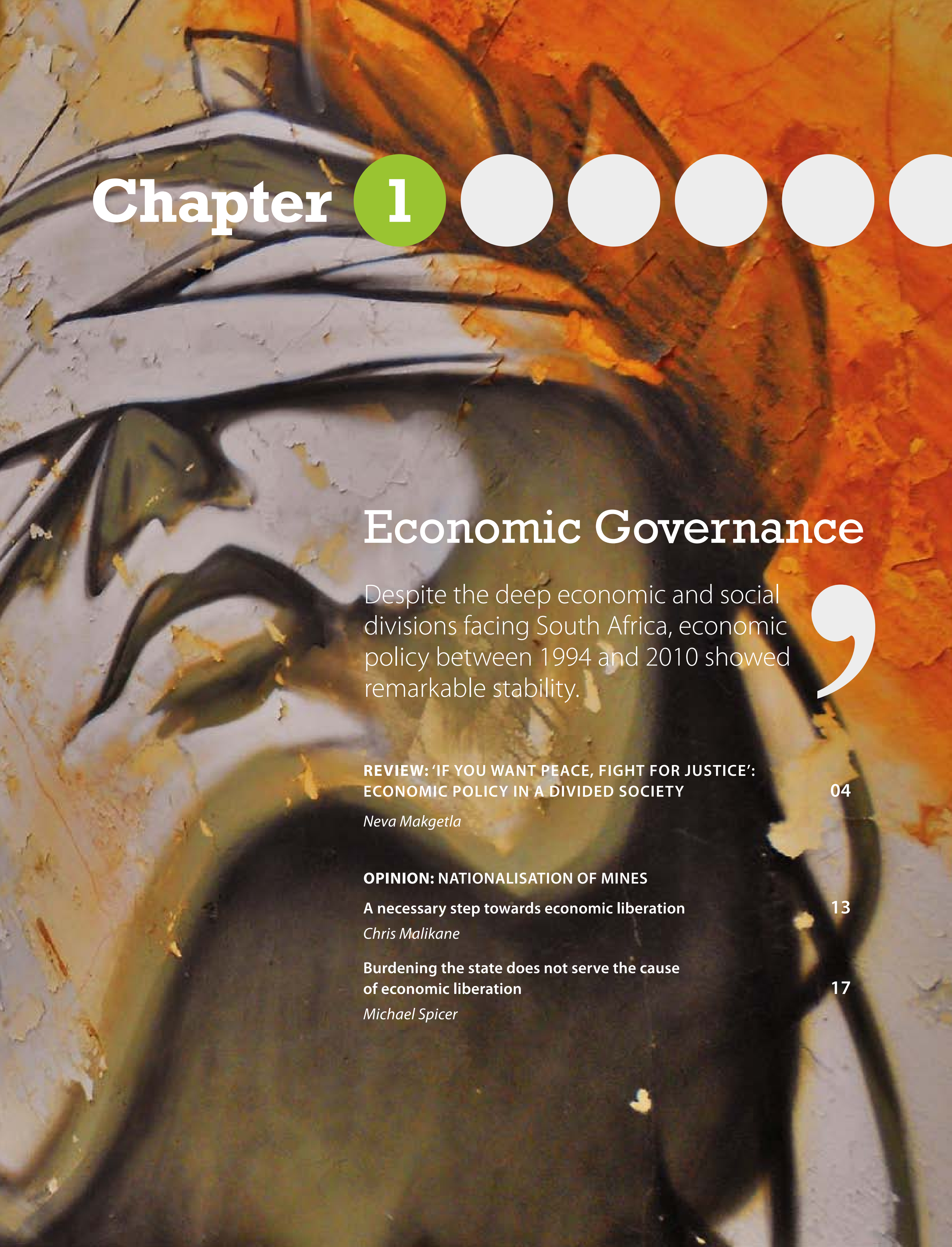


Chapter 1

Economic Governance

Despite the deep economic and social divisions facing South Africa, economic policy between 1994 and 2010 showed remarkable stability.

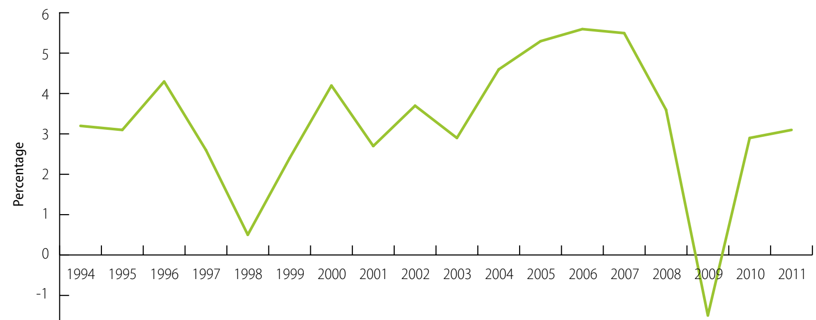
The Economy at a Glance

South Africa experienced robust GDP growth since the turn of the millennium, albeit at lower levels than most of its peer emerging markets. Lagging behind the global recession, it briefly dipped into a recession in 2009 that had a severe impact on the country's fragile labour market, but returned again to growth in 2010. As a result of tight fiscal management, the country has for most of the previous decade managed to reduce its budget deficit and recorded surpluses in the two years prior to the recession. Due to slow growth in the years since, government revenues have shrunk, resulting once again in a widening of the deficit. Against this background, the country's debt to GDP ratio has increased steadily by 9 percentage points from 27 per cent in 2008 to an estimated 36 per cent in 2011, to finance government expenditure.

3.1%

South Africa's projected GDP growth for 2011

SOUTH AFRICA YEAR-ON-YEAR GDP GROWTH SINCE 1994



Source: World Bank, World Development Indicators 2011; National Treasury, Medium Term Budget Statement 2011

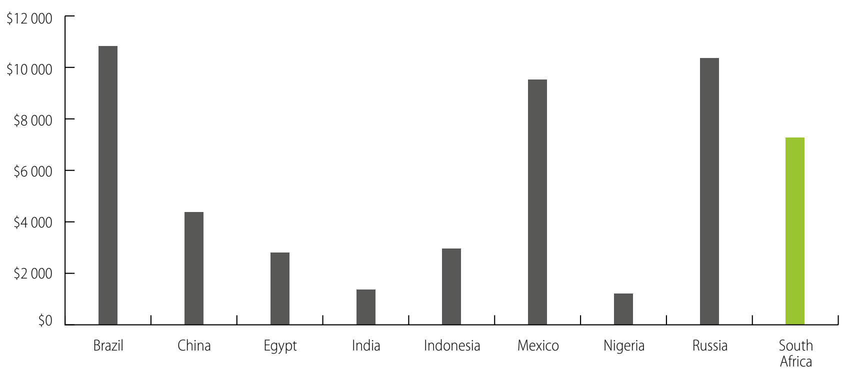
South Africa's gross debt to GDP ratio in comparative perspective

	2005	2006	2007	2008	2009	2010	2011 (est.)	Estimates start after
Brazil	69%	67%	65%	64%	68%	67%	65%	2010
China	18%	16%	20%	17%	18%	34%	27%	2010
India	79%	75%	73%	73%	69%	64%	62%	2010
Indonesia	46%	40%	37%	33%	29%	27%	25%	2010
Mexico	40%	38%	38%	43%	45%	43%	43%	2010
Nigeria	29%	12%	13%	12%	15%	17%	16%	2009
Russia	14%	9%	9%	8%	11%	12%	12%	2010
South Africa	34%	31%	27%	27%	31%	34%	36%	2010

Source: International Monetary Fund: World Economic Outlook September 2011

Note: Gross debt consists of all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date or dates in the future. This includes debt liabilities in the form of SDRs, currency and deposits, debt securities, loans, insurance, pensions and standardised guarantee schemes, and other accounts payable. Thus, all liabilities in the GFSM 2001 system are debt, except for equity and investment fund shares and financial derivatives and employee stock options. Debt can be valued at current market, nominal, or face values (GFSM 2001, paragraph 7.110).

SOUTH AFRICA'S GDP PER CAPITA IN COMPARATIVE PERSPECTIVE, 2010



US$ 7 274

South Africa's GDP per capita income

Source: International Monetary Fund: World Economic Outlook September 2011

Note: GDP is expressed in current US dollars per person. Data are derived by first converting GDP in national currency to US dollars and then dividing it by total population.

GDP growth by main sectors of the South African economy

Sector	2007	2008	2009	2010
Primary	0.6%	-0.1%	-3.9%	4.3%
Agriculture	2.7%	16.1%	-3.0%	0.9%
Mining	0.0%	-5.6%	-4.2%	5.8%
Secondary	6.2%	3.0%	-7.1%	4.1%
Manufacturing	5.2%	2.6%	-10.4%	5.0%
Electricity	3.4%	-3.1%	-1.6%	2.0%
Construction	14.0%	9.5%	7.4%	1.5%
Tertiary	6.1%	4.5%	0.7%	2.2%
Wholesale and retail	5.3%	0.8%	-2.5%	2.2%
Transport	6.6%	3.4%	0.6%	2.9%
Finance	7.9%	7.3%	9.0%	1.9%
Government services	4.0%	4.5%	4.1%	3.0%
Personal services	5.6%	3.9%	-0.3%	0.6%
GDP growth	5.6%	3.6%	-1.7%	2.8%

Source: South African Reserve Bank, *Quarterly Bulletin* No.260, June 2011

South Africa's GDP growth in comparative perspective

	2006	2007	2008	2009	2010
Brazil	4.0%	6.1%	5.2%	-0.6%	7.5%
China	12.7%	14.2%	9.6%	9.2%	10.3%
India	9.3%	9.8%	4.9%	9.1%	9.7%
Indonesia	5.5%	6.3%	6.0%	4.6%	6.1%
Nigeria	6.2%	6.4%	6.0%	7.0%	7.9%
Russian Federation	8.2%	8.5%	5.2%	-7.8%	4.0%
South Africa	5.6%	5.6%	3.6%	-1.7%	2.8%

Source: World Bank: World Development Indicators 2010

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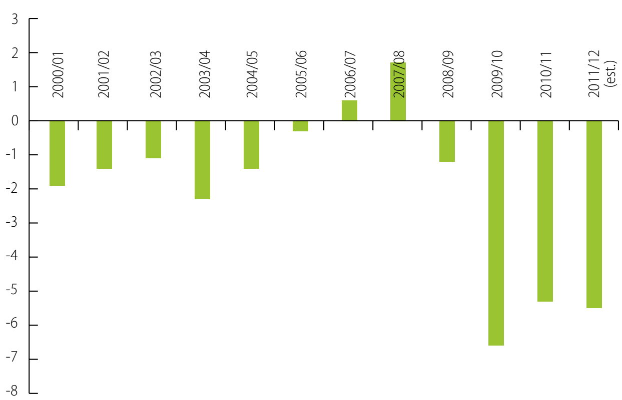
5.0%

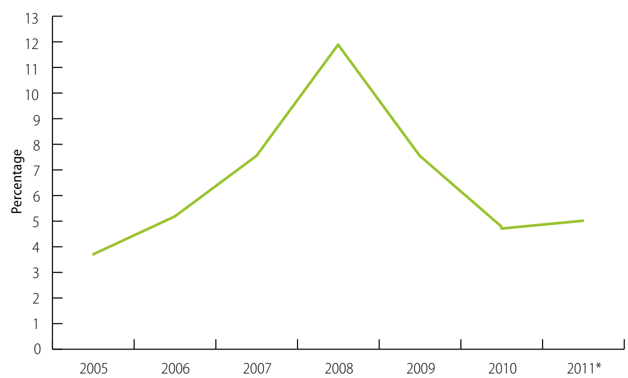
South Africa's official inflation rate for 2011

SOUTH AFRICA'S BUDGET BALANCE AS A PERCENTAGE OF GDP



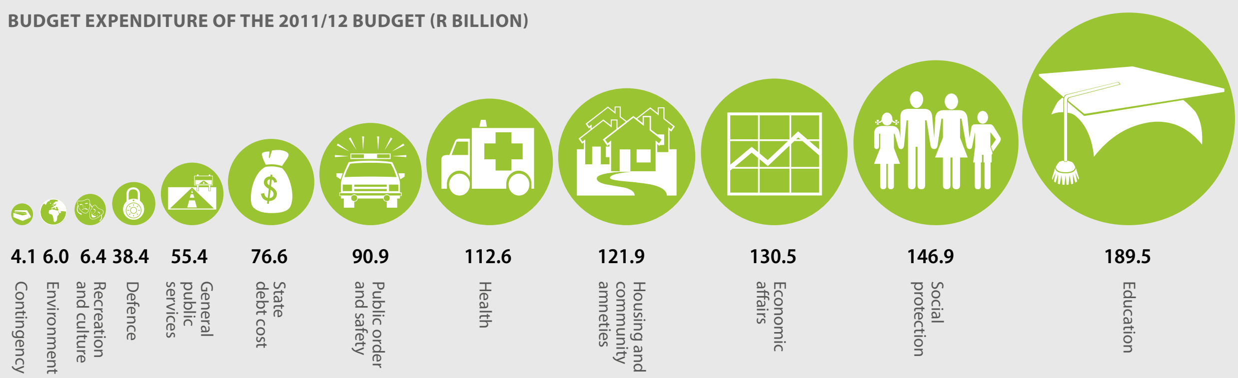
Source: National Treasury, Budget Review 2011

CPI INFLATION RATE, 2005–2011



Source: Stats SA – www.statssa.gov.za, accessed 30/11/2011
Note: * Source for 2011: SA Treasury, MTBS 2011

BUDGET EXPENDITURE OF THE 2011/12 BUDGET (R BILLION)



Source: National Treasury, Budget Review 2011

REVIEW | 'If you want peace, fight for justice': Economic policy in a divided society

Neva Makgetla

In the course of South Africa's second decade of democracy, conflicts around economic policy intensified. While poverty levels declined, deep inequalities persisted, largely but not entirely along the lines of race, class and geography established under apartheid. That, in turn, provided fertile ground for disagreement about national economic strategies.

After 1994, the economy recovered from the very slow rates of growth and investment that had characterised the previous 15 years; yet, levels of joblessness and inequality continued to rank amongst the worst in the world. Mining and finance dominated economic growth, resulting in a deeply inequitable distribution of the benefits. Rapid employment growth emerged between 2000 and 2008, mostly in retail and services, but even more rapid job losses followed in the period 2008–2010. Thereafter, the fragility of the recovery in the global North constrained prospects for growth and employment.

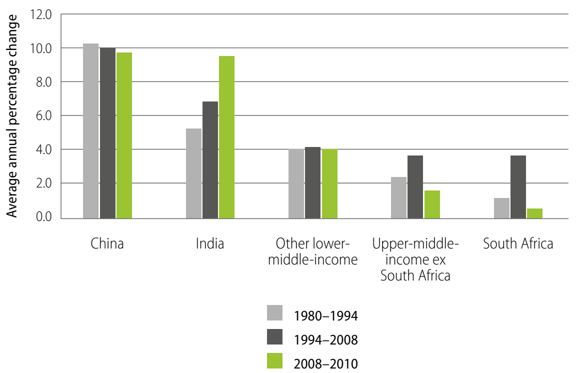
Ultimately, the democratic state faced the dual challenge of making the economy more competitive while simultaneously improving conditions for employment and equity. In the late '00s, economic policy increasingly prioritised support for employment creation as central to enhanced equality. That laid the basis for more coherent economic strategies. Still, a deadlock over implementation remained a real risk. It arose largely from the fragmentation of the state, which ended up substantially mirroring the deep economic divisions in society.

This article first reviews trends in growth, investment, employment and equity since 1994. It then surveys some of the domestic and global factors underlying these trends. The third, and final, part summarises the implicit economic pact that led to extraordinarily stable economic policies for most of the democratic era, despite intense public debates.

Economic trends after 1994

In many ways, South Africa's economic record after 1994 looked like a poster child for democracy. After a decade of stagnation, growth and investment recovered to global norms. Fiscal redistribution provided new services and support for the poorest households, especially in the former bantustans. Nonetheless, participation in the formal economy remained extraordinarily inequitable. High levels of joblessness declined somewhat in the prolonged upswing of the '00s, but returned to their original levels following extraordinary job losses in 2008–2010.

Figure 1.1.1: Growth in South Africa and other upper- and lower-middle-income economies, 1980–2010



Source: Calculated from World Bank (2011)

From 1994 until 2008, the South African economy grew almost exactly at the average for middle-income economies excluding China and India. In contrast, over the previous 15 years it had expanded at only half the norm for peer economies. The 2008 downturn saw a fall in GDP followed by a slower recovery than that of other middle-income economies.

Investment

The democratic era also saw a turnaround for investment, as Figure 1.1.2 shows. Investment fell from 27 per cent of the GDP in 1982 to 15 per cent in 1993. It remained fairly stagnant until the early '00s, but then climbed steadily to 23 per cent in 2008. The downturn meant that private investment dropped by close to 10 per cent between 2008 and mid-2011, although public investment – around a third of the total – climbed by 15 per cent. As a result, total investment dropped by 1.6 per cent and the investment rate fell to just under 18 per cent in the first half of 2011.

The improvement in growth and investment after 1994 was, however, not matched by a similar recovery in equity and employment. That, in turn, led to a steady increase in political strains.

Inequality

Reliable data on income distribution are difficult to obtain everywhere, because households find it hard to assess their income accurately, and a substantial share (in South Africa, typically between 5 per cent and 10 per cent) do not answer income surveys. Furthermore, Statistics South Africa's annual General Household Survey groups together all households earning over R20 000 a month, which accounted for the richest 8 per cent of households in 2010. As a result, estimates of income for the top decile can vary substantially. The Income and Expenditure Survey is more detailed but comes out only every five years, most recently in 2005/6. Finally, because statistics before 1994 largely excluded Africans, new survey systems had to be established, making the data for the late 1990s particularly untrustworthy.

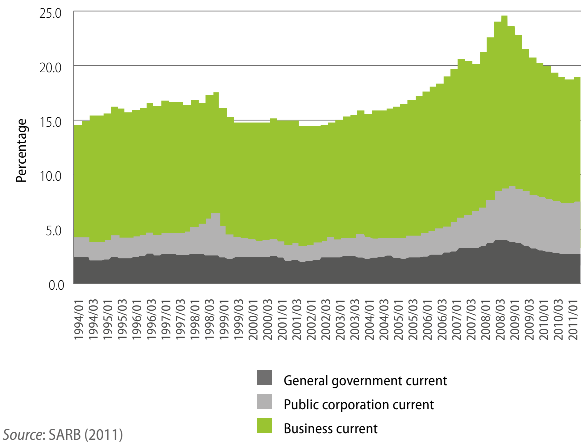
Despite these caveats, the available surveys show that South Africa remained amongst the most inequitable countries in the world, with a Gini coefficient hovering just under .70.[1] The World Bank's World Development Indicators reported a Gini coefficient for only half of all countries in the '00s; of those, South Africa had the worst income distribution. The available surveys suggest that inequality worsened in the late 1990s (when the surveys were least reliable, however) but stabilised in the '00s.

Employment

The transition to democracy did little to alleviate the high rates of joblessness that emerged in the 1980s, although it brought a turnaround in the rapid deterioration in employment of the previous 15 years. As can be seen in Figure 1.1.4, the share of working-age people with employment fell steadily from the late 1970s through the mid-1990s. The boom of the '00s saw some improvement, with the creation of 2.5 million new jobs increasing the employment ratio to 45 per cent. However, the loss of around a million jobs in 2008/09, combined with the growth in the working-age population, meant that the employment ratio fell back to just over 40 per cent.

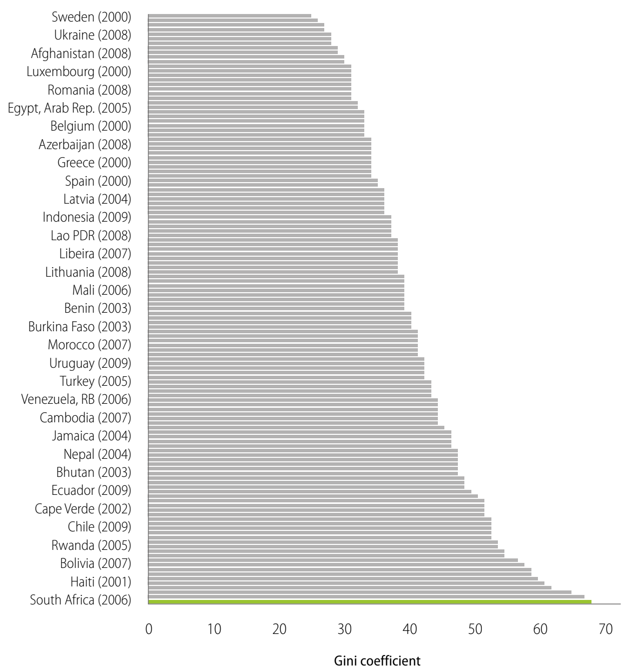
In sum, for most of the past decade only around two adults out of five in South Africa have been employed or self-employed. In contrast, the global norm is around three out of five. Unemployment was closely linked to the spatial inequalities left by apartheid. Some 35 per cent of the population, and 44 per cent of Africans, still lived in the former bantustans in 2010. Only 22 per cent of working-age adults in these areas had employment, however, compared to 48 per cent in the rest of the economy. Moreover, incomes for the employed tended to be lower than they were elsewhere. As a result, in 2010, the median household income in the former bantustans was

Figure 1.1.2: Investment by type of organisation as a percentage of GDP, 1994–2011



Source: SARB (2011)

Figure 1.1.3: Reported Gini coefficients internationally and in South Africa, 2000–2009*



Source: World Bank (2011)

Note: *Only 130 out of 219 countries covered by the World Bank's World Development Indicators reported a Gini coefficient in the '00s. The year of the reported Gini is in parentheses following the country's name. Not all the names of countries appear due to lack of space.

Surveys show that South Africa remained amongst the most inequitable countries in the world.

> The economy's vulnerability resulted from the continued dependence on the mining value chain, combined with a surge in financialisation, driven by extraordinarily large inflows of portfolio capital.

R1 580, compared to R3 080 in the rest of the country (Stats SA 2011a for settlement patterns and median household incomes; Stats SA 2011b for employment status).

Unequal gains

Given growth with constant, although high, inequality, poverty as measured by international poverty lines declined substantially between 1994 and 2008. Again, the data for the 1990s are not fully reliable.[2] While not providing income data, the 1996 October Household Survey found that two-thirds of households spent less than R1 100, which was approximately equal to US$2 per person, or the international poverty line, for a household of five (Stats SA 1996). In 2009, in contrast, the General Household Survey found that only around a third of households lived on the equivalent amount. That was around R1 580 for a household of four, which was used because household size fell in the period (Stats SA 2010a). Moreover, the income data do not show the improvements in government services and housing in poor communities, which further enhanced living standards.

The disproportionate gains of the very well-off during this period, however, effectively overshadowed the real benefits for the poor, and fuelled broad discontent with economic outcomes despite improvements for the majority.

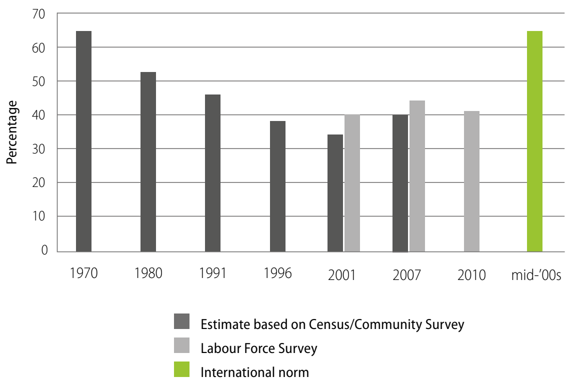
The downturn from 2008 saw an increase in poverty. According to the General Household Survey, the share of households living on less than US$2 a day per person increased slightly, to just over a third, from 2009 to 2010. Moreover, the median household income fell from R2 510 to R2 450 per month in nominal terms. Taking inflation into account, that meant a fall of 9 per cent (Stats SA 2010a, 2011a).

In short, while the transition to democracy brought a substantial economic dividend in terms of growth and investment, the deeply inequitable economy that was created under apartheid largely persisted. Moreover, the downturn from 2008 saw a substantial worsening in unemployment and poverty. In the following three years, despite some recovery, significant instability and generally weak economies in the global North meant that growth in South Africa also slowed, making it even more difficult to address mass joblessness and inequality.

Factors behind lasting inequality

The global downturn demonstrated the shortcomings of the growth path from 1994. In particular, the unusually large job losses – equal to 6 per cent of total employment – pointed to fragility in employment creation. Ultimately, the economy's

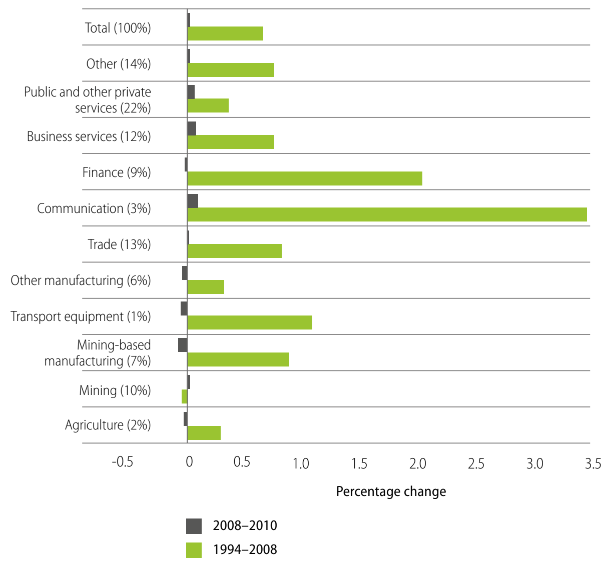
Figure 1.1.4: Share of adults with employment, 1970–2010*



Source: Calculated from Statistics South Africa. Census data for relevant years for RSA, Bophuthatswana, Ciskei and Venda. Downloaded from interactive data site (Nesstar facility) in August 2010; DBSA, data on population and employment in the RSA and TBVC, kindly provided in August 2010.

Note: *Before 1996, the Census did not fully cover Africans. Furthermore, the estimates tended to assume that virtually all adults in the former bantustans were employed as subsistence farmers. The figures here, therefore, represent estimates based on reinterpretations of the available data in line with more standard definitions.

Figure 1.1.5: Growth by sector, 1994–2010 (share of total value added in 2010 in brackets)



Source: Calculated from standardised industry data on value added at basic prices, downloaded from Quantec EasyData, October 2011.

vulnerability resulted from the continued dependence on the mining value chain, combined with a surge in financialisation, driven by extraordinarily large inflows of portfolio capital. The result was a persistently strong and volatile rand, which discouraged exports and made imports cheaper. This hampered diversification into new forms of production. Inequality skewed domestic demand, so that employment grew primarily in services for relatively well-off households and in the public sector.

From 1994 to 2010, the mining value chain provided more than half of all exports, but its overall growth was relatively slow. In contrast, the financial sector grew extraordinarily fast. It was outstripped only by the communications industry, which remained far smaller. The share of the financial sector in total value added increased from 7 per cent in 1994 to 11 per cent in 2008, before falling back to 9 per cent in the global downturn. Communications contributed only 3 per cent of value added in 2011. The financial sector accounted for almost a fifth of total economic growth after 1994.

Growth in the financial sector was underpinned by peculiarly high portfolio inflows, which followed the opening up of the economy from 1989. Between 1994 and 2008, portfolio inflows to the stock market equalled 2.9 per cent of GDP – a far higher proportion than for virtually any other middle-income economy. In this period, South Africa accounted for 0.5 per cent of global production, but received 1.0 per cent of all portfolio equity investment worldwide. In contrast, it received only 0.2 per cent of foreign direct investment (i.e. investment where the foreign partner obtains a controlling interest of at least 10 per cent). Foreign direct investment (FDI) equalled just 1.3 per cent of South Africa's GDP. While South Africa ranked first among the 47 upper-middle-income economies that reported on portfolio inflows relative to GDP, it found itself fifth from the bottom for FDI as a percentage of GDP (World Bank 2011; see also Ahmed, Arzeki & Funke 2007).

A comparison with Brazil, Russia, India and China (the so-called BRIC economies) underscores South Africa's unique position (see Figure 1.1.6). In these countries, portfolio investment ranged from 0.5 per cent of GDP in Russia to 1.1 per cent of GDP in India between 1994 and 2008. In contrast, FDI equalled 1.1 per cent of the GDP in India and 2.5 per cent in China.

As capital inflows boosted the value of the rand, producers of goods and services other than finance faced growing hurdles in both exporting and competing with imports. Between 1994 and 2010, exports of goods and services exceeded imports only in 2001 and 2002. In 2008, the trade deficit peaked at 7 per cent of GDP, before falling to 2.8 per cent in 2010.

High levels of portfolio investment also fed into a bubble on the stock market. By 2010, the market value of companies listed on the JSE was almost 300 per cent of GDP (an increase from 166 per cent in 1994).

The size of market capitalisation compared to GDP was uniquely high in South Africa. Of the 100 countries covered by World Bank data for 2010, the figure for South Africa was exceeded only by Hong Kong. In 2010, the average ratio of market capitalisation to GDP for the world as a whole was 90 per cent. The BRIC countries ranged from a high of 81 per cent for China to a low of 68 per cent for Russia (World Bank 2011).

Growth in the financial sector was also associated with rapid expansion in domestic credit (see Figure 1.1.7), with credit to the private sector climbing from 56 per cent of the GDP in 1994 to a high of 87 per cent in 2008 before dropping to 78 per cent in the downturn (see DTI 2011; Mohamed 2009).

The share of credit to business in total private borrowing rose from 40 per cent in 1994 to 55 per cent in 2003, but then fell back to around 50 per cent as bank loans to households boomed in the late '00s. Rich families dominated household borrowing, with the best-off 10 per cent of households accounting for around 90 per cent of all credit (almost entirely for houses and cars) in the mid-'00s (Stats SA 2006).

The growth of the financial sector was associated with a disproportionate increase in net operating surplus – returns to capital after depreciation – for the industry. From 1994 to 2008, the net operating surplus in finance rose at an average of 16 per cent a year, surpassed only by communications, where it climbed 24 per cent a year. In contrast, surpluses in agriculture, mining and manufacturing rose just 3 per cent a year, and in the rest of the economy around 6 per cent. The financial sector captured over a quarter of the increase in net operating surplus for the economy as a whole between 1994 and 2008.

The financialisation of the economy largely explained the relatively sharp impact of the 2008 downturn on South Africa.

Firstly, the financial institutions reduced their credit extension sharply with the global downturn. In real terms, loans to businesses fell by 9 per cent in 2008/09 before growing slowly by 0.5 per cent in the following year. This fall contributed to the decline in investment and growth. In addition, loans to households fell by 3 per cent in 2008/09 and then grew 3.3 per cent in the following year.[3]

Secondly, the dependence on short-term portfolio inflows left the country vulnerable to rapid changes in investor sentiment. The stock exchange experienced a sharp fall in value in 2008 as foreign capital fled to safer havens overseas, but the very relaxed monetary policies adopted in the global North in

Between 1994 and 2010, exports of goods and services exceeded imports only in 2001 and 2002.

response to the crisis soon saw a recovery. Revived short-term capital inflows led to a strong and highly volatile rand, which, in turn, depressed growth in the rest of the economy.

More fundamentally, large financial inflows combined with booming commodity prices in the first decade of the new millennium hampered diversification in the rest of the economy. The mineral value chain continued to dominate exports, accounting for around 60 per cent of merchandise exports from 1994 through 2010 (see Figure 1.1.8). The production of gold fell substantially, but platinum, iron ore and coal sales rose strongly. As platinum created far fewer jobs than gold mining, this shift contributed to an ongoing decline in employment in mining overall despite the rising value of exports.

Outside the mining value chain, only the auto industry substantially expanded its exports. It enjoyed very large tax subsidies, however, accounting (by various estimates) for between half and three-quarters of all industrial subsidies provided by the state.

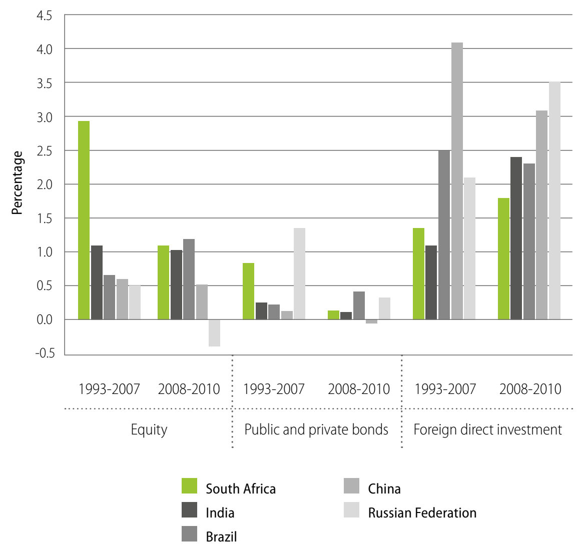
Figures for profitability underscore the difficulties facing diversification, with relatively low gains in mining outside of mineral beneficiation and the auto industry. From 1994 to 2008, the net operating surplus in smelting and refining rose by 7.6 per cent a year, and in transport equipment, by 5.2 per cent. In the rest of manufacturing – mostly food processing, clothing, wood and paper production, appliances and capital goods production – the net operating surplus rose only 1.5 per cent a year in this period. In agriculture, the net operating surplus grew 4.0 per cent a year, falling from 9.0 per cent of the total in 1994 to 5.0 per cent in 2008.[4]

The 2008 downturn underscored the risks of continued over-dependence on mining. Smelting and refining saw a particularly sharp fall in profitability and production, due partly to the decline in export demand and partly to the soaring cost of electricity as South Africa reached the limits of its generation capacity. While commodity prices recovered relatively rapidly, the strong rand and high electricity prices continued to drag on the beneficiation sector. Indeed, the shift to expensive electricity necessitated a fundamental shift away from heavy industry, even as it benefited from high commodity prices. However, given the strong rand and comparatively low profitability in other sectors, it was difficult to identify viable alternatives.

The production structure that emerged from the growth of the financial sector and continued dependence on mining, generally, led to rapid expansion in employment in the '00s, but largely in sectors characterised by considerable insecurity. This pattern of employment creation largely explains the sharp fall in employment in 2008 and 2009.

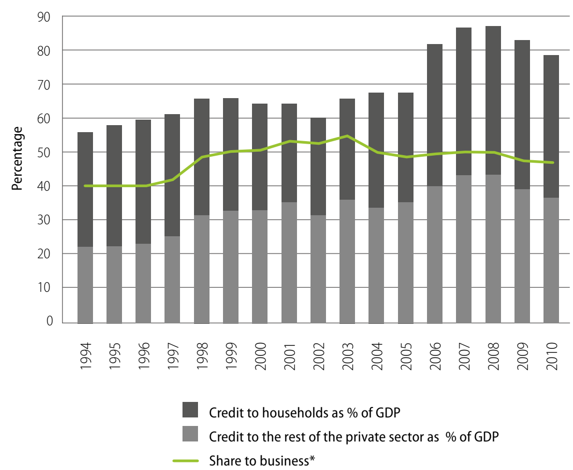
Again, the data for the 1990s on employment are poor, making it hard to assess trends from 1994. Estimates suggest that agricultural employment shrank by half, or by more than a million jobs between 1994 and 2008, while mining jobs fell by around 100 000 and manufacturing employment remained virtually unchanged.[5] Meanwhile, most new jobs after 1994

Figure 1.1.6: Net flows of portfolio equity, public and private bonds and foreign direct investment as a percentage of GDP for the BRICS, 1994–2007 and 2008–2010



Source: World Bank (2011)

Figure 1.1.7: Credit to households and the rest of the private sector relative to GDP, 1994–2010



Source: SARB (2011)

Note: *The share to business is defined here as the share of total credit to the private sector that does not go to households.

The question became whether the fragmented economic policy institutions of the state could consistently support more vigorous efforts to encourage employment creation and equity.

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were created in services and retail for high-end consumers, where employment is particularly sensitive to economic trends, and in the public sector. Retail, business and community services contributed virtually all net new employment between 1994 and 2008. Security guards alone accounted for 12 per cent of all new formal jobs created between 2002 and 2010 (Stats SA 2002, 2010c).

The slow growth of employment in the financial sector was particularly marked in the light of its rapid growth. The industry's contribution to GDP tripled between 1994 and 2008, but employment in the sector climbed by only 14 per cent, to make up just 4 per cent of non-agricultural employment growth. In other words, while the financialisation of the economy slowed growth and employment creation outside of the financial sector, finance itself did relatively little to generate new jobs.

The picture for smelting and refining was similar. The industry contributed 11 per cent of the growth in value added from 1994 to 2008, but lost jobs in the process. In 2008, it contributed an estimated 8 per cent of value added but only 4 per cent of employment.

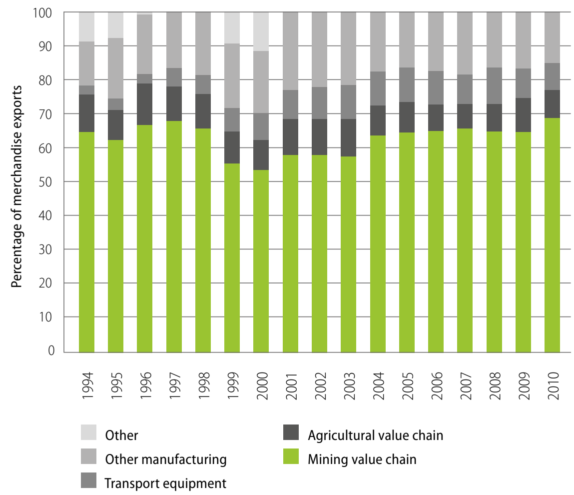
Stagnant employment in the economy's growth industries contributed to a steady decline in the share of remuneration relative to profits in total value added. While employees in government and manufacturing captured a higher share of returns from 1994, overall, and in particular in mining, the share of remuneration in total value added fell in the democratic era (see Figure 1.1.9).

In sum, while growth and investment recovered between 1994 and 2008, they remained centred on mining and, increasingly, the financial sector. The result was that production and employment proved even more vulnerable to external shocks like that experienced in 2008. Relatively slow growth in more labour-intensive manufacturing, high-level services and agriculture meant that there was little qualitative change in the economic opportunities open to the majority of South Africans. In these circumstances, growth did little to address the deep inequalities left by apartheid.

Inequality and economic strategies

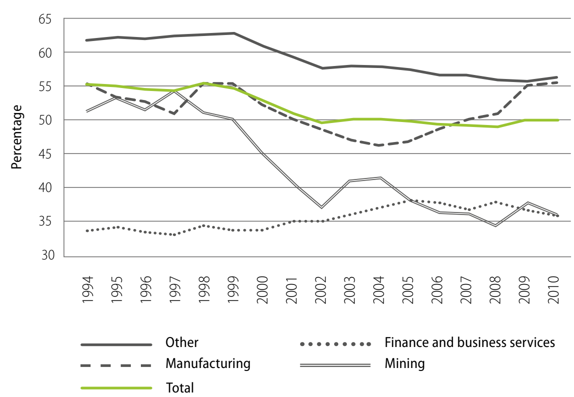
Despite the deep economic and social divisions facing South Africa, economic policy between 1994 and 2010 showed remarkable stability.[6] In effect, this can be understood as reflecting a durable social pact in which government policy provided something for all the major stakeholders. Persistent inequalities placed this pact under increasing pressure, however, as widespread expectations of more fundamental

Figure 1.1.8: Merchandise exports by industry, 1994–2010



Source: Calculated using data on exports (2-digit SIC), downloaded from Quantec EasyData, October 2011.

Figure 1.1.9: Share of remuneration in total value added by major industries, 1994–2010*



Source: Stats SA (2011c)

Note: * Remuneration includes payments to managers, which may include an element of profits.

Table 1.1.1: Summary of broad policy phases, 1994–2010							
Policy document	**Aim/central argument**	**Ownership**	**Employment**	**Government services**	**Economic infrastructure**	**Trade policy**	**Fiscal/ monetary**
RDP (1994)	Growth through redistribution through the fiscus	Support SMMEs, land reform, housing subsidies	Result of broader development strategy	Improved services in black communities critical for equity and to stimulate demand	Not seen as a problem – emphasis on improving housing and related infrastructure in black communities	Open the economy and support exports through supply-side measures	Maintain existing ratios – meaning, above all, budget deficit to GDP
GEAR (1997)	Reassure capital especially by reducing the budget deficit	Privatise large state-owned enterprises	Result of accelerated economic growth and pay restraint in the public sector	Expenditure constrained by deficit target	Same	Same	Reduce budget deficit to 3 per cent
Post-GEAR (2000)	More expansionary fiscal and monetary stance	No explicit shifts	Result of broader development	Relatively rapid expansion, especially in social grants	Same	Same	Expansion in government spending primarily due to more efficient tax collection and reduced interest rates; inflation targeting introduced to relax monetary policy
AsgiSA (2005)	More inclusive growth based on government infrastructure spend, sector strategies and skills development	Greater support for SMMEs and skilling, and stronger and more strategic approach to competition policy	Accelerate through sector strategies, SMMEs and skills	Same	Core economic infrastructure seen as major constraint on growth	Increasingly protectionist in response to Doha demands	Same, plus call for more competitive exchange rate
Crisis response (2008/09)	Counter-cyclical package plus efforts to limit formal-sector retrenchment	Support for major companies	Active labour market policies plus targeted sector rescues	No reduction despite 10 per cent drop in revenues	Maintain infrastructure programmes despite financing problems	Same	Counter-cyclical fiscal strategy and call for more competitive exchange rate
New Growth Path (2011)	Government must reduce unnecessary costs to business but more vigorously support economic equity, especially through employment creation	Intensify strategic competition policy aimed at reducing costs on intermediate and wage goods; support for small-scale agriculture and social economy	Accelerate, above all, through diversification into more labour-intensive activities (light industry, agriculture, high-end services)	Review to ensure more consistent support for employment creation	High public investment as key growth driver	Increasingly shift toward region and global South especially given slowdown in traditional partners	Same; much greater emphasis on local procurement as a driver of diversification

Note: RDP = Reconstruction and Development Programme; GEAR = Growth, Employment and Redistribution; AsgiSA = Accelerated and Shared Growth Initiative for South Africa.

> The fragmentation of the state itself made rigorous implementation of new policies difficult, while the global economic downturn reduced the resources available to finance new initiatives.

change remained unfulfilled. The question became whether the fragmented economic policy institutions of the state could consistently support more vigorous efforts to encourage employment creation and equity.

We can define phases in the state's broad approach to development largely in terms of major policy documents. As Table 1.1.1 shows, every phase had in common a commitment to maintaining the core elements of a market economy while gradually bringing about greater equity.

The following areas of continuity and change in economic policy stand out.

» The RDP contended essentially that improvements in government services to black communities would in themselves ensure a more inclusive economy. This theme increasingly gave way to an emphasis on measures to reform the production structure and ownership, mostly through various subsidies combined with targeted government procurement. The shift emerged together with a growing emphasis on employment creation in the rhetoric of the documents.
» At least until AsgiSA, the government generally took the core formal economy for granted, focusing its efforts on ensuring greater equity without causing major disruptions. It effectively saw the main concession to business as its protection of property rights. It, therefore, felt free to abruptly end many subsidies, including on economic infrastructure. The result was rising costs in key industries, especially for electricity and transport, combined with a decline in the quality of economic infrastructure. AsgiSA reversed this tendency by emphasising the need to address core constraints on business. The New Growth Path strongly emphasises the need to reduce unnecessary costs to enterprise while maintaining pressure for diversification in ways that would support employment creation.
» Social services remained largely delinked from economic needs, in contrast to the RDP's argument that they should be shaped to support economic development. This emerged, for instance, in the location of RDP housing far from economic opportunities, the failure to address core quality issues in education in poor communities, and the escalating health care costs that raised employment costs. Furthermore, the bureaucratic provision of services to individuals and households, with very little opportunity for more transparent or collective decision-making and responsibility, created fertile ground for anger and unrest over perceived unfairness and shortcomings.
» The strategy, as perceived by the public and stakeholders, usually diverged quite fundamentally from the written texts, which generally included many programmes that were never implemented. For instance, GEAR included a host of proposals around redistribution and equity, including restraint on public servants' pay to permit more rapid expansion in public sector employment, and AsgiSA specified strong sector strategies as a major vehicle for employment creation.
» Only the crisis response in 2008 and the New Growth Path began to include measures around emissions as an important part of economic strategy. However, the issue appeared mostly in terms of green jobs rather than as part of a fundamental shift away from an emissions-intensive economy.

In effect, the stability of economic policy resulted from an implicit social pact through which the state managed: the divergence between economic power, still located predominantly in large businesses; the political power wielded by the majority of voters, who remained mostly poor and largely jobless; and the social and lobbying strength of black businesspeople. It, therefore, provided the following:

» For business, only incremental change in the structures of ownership, production and residential areas, combined with a strong commitment to maintaining property rights and core economic infrastructure.
» A combination of social and housing grants to improve conditions for the most marginalised. By 2010, a fifth of all households and two-fifths of households in the former bantustans said that social grants were their main source of income (Stats SA 2011a).
» For the urban working-class, labour rights on the European model, significant improvements in infrastructure and desegregation of historically white institutions and areas.
» For black business and graduates, vastly expanded opportunities through BEE policies in the private sector and employment practices in the public sector.

This social pact was maintained through state policies, rather than being formalised as an agreement to pursue a common development strategy that would bring costs as well as benefits to participants. In this context, policy debates tended to revolve around a zero-sum approach, rather than a search for mutually beneficial compromises. In essence, they reflected the efforts of different stakeholders to modify the underlying social pact in their favour. Participants regularly threatened to resort to power, with business invariably warning of capital flight, while labour organised general strikes and community representatives pointed to rising civil unrest.

The government did not consciously design the social pact to mirror the economy. Rather, the extreme fragmentation of economic policy-making meant that it largely reflected the balance of economic, political and social power in the broader society.

Economic policy-making was divided amongst a host of state entities: sectoral economic departments at national level; co-ordinating departments such as the Treasury, the Economic Development Department and the Department of Rural Development and Land Reform; the Reserve Bank and other regulators; the development finance institutions and state-owned enterprises; and local and provincial governments.

Given this institutional fragmentation, it was easy for policy-makers to end up representing, not the majority in a democratic sense, but rather their key stakeholders. As a result, efforts to implement broad policy changes often got bogged down in inter-departmental debates.

By 2011, the weaknesses in the compromises that emerged after 1994 became increasingly clear, in part because of the sharp losses suffered by the majority in the economic downturn. Calls for nationalisation of the mines and expropriation of farms reflected frustration with the slow pace of change for the majority. The government responded by promising to do more to prioritise the needs of ordinary South Africans, through increased efforts to support employment creation, as reflected in the New Growth Path. However, the fragmentation of the state itself made rigorous implementation of new policies difficult, while the global economic downturn reduced the resources available to finance new initiatives.

Some conclusions

Both AsgiSA and the New Growth Path provided reasonable responses to the economic challenges facing South Africa. In effect, they emphasised the need to diversify the economy in ways that would open new opportunities for the marginalised majority, mostly through employment but also through support for small enterprise. However, it proved much easier to conceptualise a development strategy that would sustain growth while encouraging greater employment and equity than to implement it.

In large part, this situation reflected a vicious cycle common to deeply unequal societies. The divisions resulting from economic injustices in themselves make it more difficult to ensure consistent implementation of national strategies, as stakeholders lobby government departments to meet their specific needs. In South Africa, this weakness was accentuated by the fragmentation of the democratic state, which lent itself to endless debates and deadlocks between different government entities.

Notes

1. The higher the Gini coefficient, the more inequitable the economy. Statistics South Africa's 2005/6 Income and Expenditure Survey, which provides the most reliable income distribution data, used a somewhat unconventional calculation method to come up with a Gini slightly over .70. Using the more common international method, the figure was just under .70. Statistics South Africa's General Household Survey data for 2010 also give a figure of around .70, but the figure is very sensitive to how one estimates income for households earning over R20 000 a month. The data for both surveys are available from the interactive Nesstar database on www.statssa.gov.za.
2. Various authors give different figures for poverty trends, although they agree on a substantial decline. See, amongst others, Stats SA (2010b) and Presidency (2009), which should be treated with caution because some of the data are clearly mislabelled (for instance, the document refers to an Income Expenditure Survey 2008, but the survey was limited to 2005/06).
3. Calculated using data from SARB interactive data site on credit extension to the private sector and households, deflated using the CPI (accessed October 2011).
4. Calculated using Quantec EasyData figures for net operating surplus by standardised industry in constant 2005 rand (accessed October 2011).
5. Figures for employment from 1994 are from estimates for total employment in standardised industries by Quantec EasyData (accessed October 2011).
6. This analysis originated in research by the author for the Centre for Development and Enterprise in 2010.

OPINION | Nationalisation of mines

A NECESSARY STEP TOWARDS ECONOMIC LIBERATION

Chris Malikane

The mining sector has experienced phenomenal growth over the past ten years. Between 2002 and 2010, the rate of return on capital employed rose from 5 per cent to 18 per cent. Average price increases of leading revenue earners for 2010 – coal, copper, iron ore and gold – ranged from 26 per cent to 111 per cent (PwC 2011). These are massive real earnings per unit of minerals produced.

South Africa ranks seventh internationally in terms of coal and iron ore production, and fifth in terms of gold production. Yet, for all its mineral wealth, the country has little to show in terms for production output. Several peer countries, including some that also bore the brunt of colonialism, are outperforming South Africa, not only in terms of output volumes, but critically also in terms of developmental indicators, such as employment, poverty and inequality. These countries have one thing in common: significant state ownership in the mineral extraction sector. While others are steaming ahead on the road of economic development, South Africa seems to be caught in a rut of low growth and slow development.

The most perplexing part about the debate on nationalisation is that those who oppose nationalisation essentially seek to suppress it. The popular line is that nationalisation puts off investors. Not only is this a myth, it is also problematic in that it is not sensitive to the political economy that continues to define modern South African society. In addition, nationalisation's detractors tend to resort to scaremongering, conjuring up images of disaster, often based on selective evidence. In the process, they also present a false perspective regarding the performance of nationalised enterprises, and their role in economic development.

While acknowledging the scale of the inequality, poverty and unemployment that continue to afflict South African society, opponents of nationalisation sow fear about its implications. It will 'kill the goose that lays the golden eggs', and is unaffordable, they say. Instead, they propose job-creation and education as panaceas to our problems.

Such arguments sidestep the crucial point that is at the heart of the calls for nationalisation. The history of South Africa is the history of wholesale dispossession, the perfection of methods of extreme exploitation and gallant struggles of resistance against these evils. It is important to underline this fact, because it places the debate about nationalisation in its concrete historical context. The call is not from some young man who woke up one day and thought it would be nice to sloganeer about nationalisation. This call can be found in the most important documents of all national liberation movements, particularly trade unions, that continue to envision a socialist South Africa.

Several reasons have been advanced against nationalisation, and alternatives have been proposed. This contribution furthers the argument that nationalisation is both necessary for industrialisation and important for sustainable job-creation. It exposes the counterposition of education and job-creation, on the one hand, and nationalisation, on the other, as a diversion from the real issues. Lastly, it concludes that, more than anything, the resistance to nationalisation is informed by deep-seated greed, which is founded on colonial exploitation of Africa's resources.

Nationalisation: a primer

Nationalisation is the transfer of privately owned assets into public ownership. In a democratic dispensation, the identification of the public with the state is resolved to a large extent, because the government that is at the head of the state is based on the will of the people. It is in this context that the clause in the *Freedom Charter* stating that 'the mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole' should be understood. Here, 'the people as a whole' are represented by the democratic state, the only structure that can justly claim such authority.

No class of people or section of the population can claim authority, unless it is based on the will of the people. Over the past 17 years, South Africa has undergone profound political changes. There is a democratic government that can justly claim to represent the people as a whole politically. However, the democratic government virtually disappears when it comes to economic transformation, particularly the ownership and control of assets in the economy on behalf of 'the people as a whole'. Over this period, attempts to shift ownership and control of the economy to a group of black people, the black bourgeoisie, not only have failed to deliver tangible socio-

The true value in the nationalisation of the mines lies in downstream processing of mineral resources, the process of industrialisation.

economic upliftment to the vast majority of the people, but they have failed to meet the targets that were initially set.

This failure prompts us to recall the *Freedom Charter's* words that 'only a democratic state, based on the will of the people', can secure the birthright of the people; only a democratic state can secure the transfer of mineral, financial and industrial wealth to the ownership of the people as a whole. The idea of giving groups of black people ownership over critical aspects of the economy is a diversion from the *Freedom Charter*, because it places these groups above the democratic state, as representative of the people as a whole on matters of economic ownership and control of strategic sectors.

It is, therefore, illegitimate: (a) to equate black economic empowerment (BEE), which is a programme ostensibly aimed at de-racialising ownership and control, with a programme of democratisation of ownership and control; and (b) to extend BEE to sectors in which it should not be applied. The *Freedom Charter* calls for de-racialisation of the economy: 'people shall have equal rights to trade where they choose, to manufacture and to enter all trades, crafts and professions'. However, this kind of de-racialisation, which refers to the entrepreneurship of individuals or groups of individuals among the people, is envisioned to occur in 'all other industry and trade' (i.e. other than that which is supposed to be 'transferred to the people as a whole').

In short, the *Freedom Charter* calls for public ownership of mineral wealth beneath the soil, the banks and monopoly industry. The reason why it was deemed necessary to include this clause in the *Freedom Charter* was because it recognised that the apartheid government that claimed authority over the people was founded on robbery, injustice and inequality. The wholesale dispossession of the indigenous African population meant that major industries had to be placed in public ownership in order to address this historical injustice.

Those who oppose the nationalisation of the mines, in particular, are quick to point out that the *Freedom Charter* calls for nationalisation of mineral wealth beneath the soil, and that this has been achieved by the Mineral and Petroleum Resources Development Act 28 of 2002 (MPRDA). However, this is flawed, because mines are inseparable from mineral resources. No mine can exist without mineral resources; the current valuation methods for mines are based on discounting net cash flows from selling mineral wealth over the lifespan of the mine. Therefore, nationalisation of mineral wealth beneath the soil without nationalising the mines is impossible, because mines are the means of production through which minerals are extracted from the soil. Furthermore, large parts of the mining sector are dominated by monopolies or oligopolies, which exert significant economic power; for example, the leading producers' market share in mineral production ranges from 24 per cent to 78 per cent.

Nationalisation for industrialisation

The true value in the nationalisation of the mines lies in downstream processing of mineral resources, the process of industrialisation. Opponents of nationalisation isolate the sector from the rest of the economy; they talk about creating jobs through 'growing the sector'. However, the only way to sustainably create jobs is to create linkages between domestic downstream manufacturing and the mining sector. Any other view is archaic and unsustainable. Economies grow more by adding value to raw minerals, or by producing high-value-added output, than by increasing physical output. It is in this context that the slogan, 'nationalisation for industrialisation' becomes important. It is also for this reason, and in this context, that nationalisation provides a platform for broad-based job creation.

In this part of the paper, it is argued that post-colonial countries that have industrialised did so on the basis of state ownership of large segments of the mining sector. In this regard, it is worth looking at the fast-growing economies of India, Brazil and Vietnam. Before proceeding, it should be noted that private ownership of mining production leads to severe industrial distortions. There is widespread monopoly pricing of raw minerals, especially import-parity pricing, in the South African economy, which is made possible by high global demand for these commodities. The effect of this has been to stifle the growth of downstream manufacturing, which India has successfully managed through its extensively nationalised mining sector.

In its national mineral policy, India states that 'the strategy for development of any mineral should naturally keep in view its ultimate end uses' (IMM 1993). The policy goes on to state that 'a thrust is to be given to exploitation of mineral resources in which the country is well endowed so that industries based on these resources can come up to meet the needs of industrial materials for which we have now to depend on external sources' (IMM 1993). In other words, the state in India intervenes to guarantee an unhindered supply of materials to industries, thereby protecting industrial development from market fluctuations. Consequently, the state in India accounts for 88 per cent of mineral production. With its heavily nationalised mining industry, India has emerged as the second fastest-growing economy following China, with a robust manufacturing sector. The Indians do not put faith in private ownership and control of their natural resources, because these are their exhaustible natural heritage and should be deployed in a way that will deliver maximum national development (which almost always does not coincide with profit-maximisation).

The leading mining company in Brazil is Vale, which used to be state-owned but was privatised in 1997, and which is the second largest mining company in the world. The circumstances surrounding the privatisation of Vale remain controversial and had nothing to do with inefficiency. Nevertheless, Brazil continues to be characterised by heavy state-ownership of critical sectors, such as petro-chemicals and banking. In fact, the basis of Brazil's industrial vitality lies in the former state-owned companies such as Vale, the National Steel Company and Petrobas. There is no doubt that state-ownership marked a significant turning point in Brazil's industrialisation. Although the state has withdrawn in industrial sectors, the remaining state-owned enterprises continue to be the mainstay of Brazil's industrial strategy.

In its mining plan for 2030, Brazil is pushing aggressively for downstream linkages. Interestingly, this move is said to unsettle the omnipresent Vale, which now controls 80 per cent of mineral production in Brazil. Vale is intent on maximising shareholder value while the Brazilian government seeks to strengthen and broaden linkages between the mining sector and downstream industries (GBR 2011). The privatisation of Vale is perhaps one of the biggest privatisation blunders in history, and makes the unfortunate privatisation of South Africa's Iron and Steel Industrial Corporation (ISCOR) fade in comparison. Brazil and India are not the only countries where state ownership has produced significant economic development. Vietnam is touted in some circles as a country that has turned the corner and abandoned state ownership. This is not true. State ownership in Vietnam is dominant and remains the hallmark of Vietnam's economy. In some countries (e.g. Spain, New Zealand and Indonesia), state ownership of mining is in a targeted sector.

What is critical to note, however, is that the argument for nationalisation based on industrialisation makes economic sense, because countries that grow the fastest are those that produce high-value-added goods, not those that rely on increasing physical quantities. Value is added to raw materials as they move down the value chain. In a situation where raw materials upstream are owned by the private sector, the private sector would seek to gain maximum returns and pocket all the profits, thereby stifling the growth of downstream high-value-added production. Nationalisation, on the other hand, is premised on the idea that it is high-value-added sectors that should benefit the most. By avoiding crude profit maximisation at the beginning of the value chain and securing the availability of raw minerals at affordable prices, value is unlocked downstream to a greater extent than had the profits been locked upstream, thanks to multipliers, the externalities, economies of scale and scope effects that are inherent in downstream manufacturing.

The current patterns of ownership and control in the mining sector are harmful to South Africa's long-term economic development. For example, South Africa ranks seventh in coal production, second in manganese production and seventh in iron-ore production. South Africa accounts for 75 per cent of the world's manganese resources. Yet, the country ranks nineteenth in steel production. South Africa accounts for 52 per cent of ferromanganese imports into the USA. This, on its own, is indicative of the scale of damage and lost opportunity that the current patterns of ownership and control have on the country's long-term development potential. It is estimated that South Africa exports 73 per cent of its crude minerals. Of the 27 per cent that remain to be processed, 80 per cent are exported after processing. This vividly illustrates the extent of the disconnection between the mining value chain and downstream manufacturing, which is what happens when a country places the extraction and exploitation of its mineral wealth in the hands of the private sector.

Overall, there is overwhelming evidence that fast-growing economies with sophisticated manufacturing have succeeded on the basis of extensive state-ownership and control of mining. This political economy explains to a large extent the structure of South African manufacturing as well, which is driven predominantly by the formerly state-owned coal and oil company, SASOL and ISCOR. Both have strong links with mining; they owned coal and iron-ore mines. The existing strengths of the South African economy are due largely to state ownership of upstream sectors. Today, if we were to remove the erstwhile state-owned petro-chemical and basic iron and steel sectors from manufacturing, very little would be left. What does all this demonstrate? The evidence is clear: all fast-growing, emerging market economies are characterised by heavy state ownership of upstream sectors, including mining.

Education and job-creation: alternatives to nationalisation?

If education and jobs were a substitute for nationalisation, the *Freedom Charter* would not have had distinct clauses in this regard. The opening of the doors of learning and culture would have been enough, and white domination would collapse purely under the weight of education. However, there is no

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precedent in history where a country educated itself out of colonialism. Neither is there a country that has pursued job-creation in order to address colonial dispossession. It simply does not make political-economic sense. The *Freedom Charter's* call for the doors of learning and culture to be opened and for free medical care cannot be substituted for the transfer of strategic sectors to the democratic state.

In fact, if job-creation were to be used as an index of economic liberation in the true sense of the word, the apartheid era would rank as economically more empowering than the current dispensation because, then, the unemployment rate was not as high as in the post-apartheid period. In any case, even from a micro-analytical point of view, it is becoming evident that there are growing numbers of educated black people who perform sophisticated functions in the economy. Yet, the rate at which this black intellect and labour is exploited is not matched by the rate of economic transformation in terms of black ownership and control of the economy. Within the existing structures of colonial ownership and control, the more black people get educated, the more they get exploited, and the deeper inequality becomes.

At a more profound level, the counterposition of job-creation and nationalisation is disingenuous because it denies the link between current patterns of ownership and control and high levels of unemployment. Just to illustrate the point, the privatisation of steel producer ISCOR has subjected the manufacturing sector to massive input price hikes based on import-parity pricing. Similarly, manganese, which is an important ingredient in steel production, is also subject to import-parity pricing. Steel-intensive manufacturing firms, especially in the machinery and equipment sectors, find themselves uncompetitive and excluded from the market. However, in countries where industrial development and, hence, sustainable productive employment are taken seriously, essential inputs such as steel and petro-chemicals are made available to downstream firms in such a way as to maintain manufacturing competitiveness. The bottom line is that profits are not maximised upstream; they are maximised downstream, where job-creation is intensive.

Nobody can deny the progress that has been made over the past 17 years in increasing the pool of educated black people. On the other hand, nobody can deny the increase in inequality across the board. Similarly, nobody can deny the scale of job-creation over the past ten years, but nobody can deny the poor quality of these jobs, which have been mainly in private services and the wholesale and retail trade sectors. We know that these sectors do not drive growth in fast-growing, emerging market economies. Such economies are driven by the electrical equipment, machinery and transport equipment sectors, not by the types of sectors that have been growing in South Africa. The interesting part is that they import raw materials from South Africa to sustain their manufacturing sectors. For example, the share of South African manganese exports to Brazil is a staggering 49 per cent, and Brazil is the ninth largest steel producer globally. Ninety-three per cent of South Africa's platinum group metals are exported, while these could be used to support downstream manufacturing, including the electronics and automotive sectors.

Those who insert education and health in the discussion of ownership and control of the country's strategic industries are disingenuous. In fact, the crisis in education and health is itself due to the existing patterns of ownership and control of the economy. The fundamental economic relationship between the black working class and the white capitalist class has never been one between humans. A significant part of what would be regarded as profits in the economy arises from the fact that the working class has limited access to quality health care and education, among other social services. The low cost of reproduction of labour-power in South Africa, and the reduction of working class livelihoods to animalistic levels, is reflected in the form of massive accumulation of wealth by a minority of the population. In other words, the socio-economic conditions of the black working class itself provide the solid foundation for accumulation.

Conclusion

Efforts to sidetrack the debate on nationalisation through selective use of facts will not work. No serious scholar can argue that post-colonial economies that are fast-growing are not supported and powered by nationalised sectors. Opponents of nationalisation must come up with better arguments. If the *Freedom Charter* is the starting point, it is clear that no group of black people can claim ownership and control of what belongs to the people as whole: the mines, banks and monopoly industries. This means that BEE deals in these sectors are illegitimate, because these sectors are supposed to be transferred to democratic state ownership. If the *Freedom Charter* is outdated, opponents of nationalisation must say so, and provide the country with a different vision.

Opponents of nationalisation raise the spectre of capital flight and lack of foreign investment in South Africa as a consequence of nationalisation. This is a myth. Many countries that have state-owned or nationalised mines and industries (not least of which is Vietnam) enter into joint ventures and partnerships with private investors. Such arrangements can be structured in line with prevailing circumstances. In fact, when the state that owns the national assets is democratic, as in South Africa, it is safer for investors to invest. What is not safe for investors is when they enter into deals with illegitimate owners of a country's national resources. Clearly it is an anomaly for foreign investors to embrace a group of white people who mortgage our mines and other strategic sectors, when it is well known that South Africa has an unresolved post-colonial situation.

Lastly, the insertion of issues of health and education in the debate is a non-starter. Those of us who argue for nationalisation do not see a trade-off between the various clauses of the *Freedom Charter*. Instead, we see them as complementary: no state can claim to be fully democratic unless it secures the birthright of the people, which is enshrined in the *Charter*. Furthermore, the issue of nationalisation is not about mining communities and good corporate social responsibility; these can be achieved easily by a nationalised mine. What is at issue here is the resolution of the underlying national question: the wholesale colonial dispossession of black people and the African majority, in particular. This dispossession remains the foundation upon which South Africa stands, and it is the foundation into which South Africa will fall, with or without foreign investors.

BURDENING THE STATE DOES NOT SERVE THE CAUSE OF ECONOMIC LIBERATION

Michael Spicer [1]

In late June 2011, the African National Congress Youth League (ANCYL) formally adopted two sets of policy proposals to shape our country's future: nationalising the mines and expropriating land without compensation. This brought into sharper focus a 'debate' about nationalisation that had been carried in the media for more than a year, and that generally amounted to little more than unsubstantiated assertion and populist sloganeering. The proposals, therefore, are deserving of a more reasoned response from all who have a vested interest in South Africa's future.

This article is a response to the policy proposal relating to the nationalisation of mines, and the ideas associated therewith. It is not focussed on the people or personalities proposing these ideas, as this generates more heat than light, and detracts from the underlying challenges facing the country and appropriate responses to them.

Three sets of questions should be asked of all public policy:

1. What will the likely benefits of the policies be for the nation?
2. What will be their likely costs?
3. What alternative policies might as or more effectively achieve the proposed policies' intended goals?

Nationalising the mining industry

In order to respond to these questions, one needs to understand the ANCYL's reasons for promoting nationalisation in the mining industry. In the final document of the League's 24th National Congress, nationalisation of the mining industry and expropriation without compensation are described as two of the '7 cardinal pillars of economic freedom in our lifetime'. Titled, *A clarion call to economic freedom fighters: programme of action for economic freedom in our lifetime*, it sets out five arguments in favour of the nationalisation of mines:

a. Increased fiscus and therefore more resources for education, housing, healthcare, infrastructure development, safety and security and sustainable livelihoods for our people.
b. More jobs for our people, because State owned and controlled Mines will increase local beneficiation and industrialisation of Mineral resources. This will in turn reduce the high levels of poverty, which is consequent of joblessness.
c. More equitable spatial development, because State owned and controlled mines will invest in areas where Mining is happening.

> 93 per cent (or R407 billion) of the value of expenditures by mining companies remains in South Africa to benefit local industries and citizens.

d. Better salaries and working conditions in Mines because State owned Mines will increase the Mining wage and improve compliance to occupational health and safety standards.
e. Greater levels of economic and political sovereignty as the State will be in control and ownership of strategic sectors of the economy, which produces minerals resources needed across the world. (ANCYL 2011: 12)

The document asserts several benefits deriving from nationalisation, including increased tax revenue, more jobs, improved spatial development, better salaries and working conditions, and greater political and economic sovereignty of the state *vis-à-vis* domestic and international private capital. Are these assumptions accurate, however? The section below considers each in more detail.

Increased tax revenue

In 2010, the mining industry paid R17.1 billion in direct corporate tax. R16.2 billion was paid to shareholders, the providers of capital (which enabled the original investments that gave birth to our mining sector). Nationalisation implies that the government would get the R16.2 billion in dividends, to add to the R17.1 billion already received in direct corporate tax. Leaving aside the extraordinary cost of acquiring the mines, dealt with below, this would be true only if the state were able to fund the R17 billion deficit between the income (R424 billion) and expenditure (R441 billion) of the sector. On these numbers, the National Treasury would be worse off; and this scenario does not even take into account the impact on skills retention, operating efficiencies of the private sector, and foreign direct investment (FDI) and portfolio flows to South Africa. A survey of jurisdictions around the world where mines have been nationalised overwhelmingly indicates a deterioration in respect of all the above factors.

Perhaps the key issue here is the perception that mining companies are just 'dirt diggers' that export all the benefits offshore, with no value addition or benefits accruing locally. The reality is quite the opposite. In 2010, the mining industry's total expenditure was R441 billion. This included the procurement of goods and services, the payment of wages, capital expenditure, depreciation, corporate taxes, dividends and interest payments. It is estimated that only R34 billion (or 7 per cent of the expenditure) went offshore in the form of dividends, interest and payment for goods and services not provided in South Africa. In other words, 93 per cent (or R407 billion) of the value of expenditures by mining companies remains in South Africa to benefit local industries and citizens.

In addition, the scale of local downstream beneficiation is very large. All of South Africa's cement, 94 per cent of our electricity, 80 per cent of our steel, 30 per cent of our liquid fuel requirements, and most of our plastics, polymers, waxes, explosives, fertilisers, and so on are made in South Africa using South African-mined products. The country accounts for 20 per cent of the world's production of platinum catalytic converters, while many other minerals are further beneficiated in the country. Estimates suggest that R200 billion in extra sales value, and more than 150 000 jobs, are created in downstream beneficiation industries using locally mined minerals. This undermines the myth that no beneficiation of minerals is happening in South Africa.

We also need to take a long-term view. If governments were required to provide all the resources for mining, from the most basic exploration for new ore sources, to mine construction, mine maintenance and expansion, and ultimately for environmental rehabilitation at the end of mining operations, it seems highly implausible that they would earn more by owning mines than by regulating them. Governments are driven by politicians with their eyes (in democracies) on regular and short-term electoral cycles. Consequently, they find it extraordinarily difficult to plan for and invest in the kind of long-term cycles that govern the mining industry, which often exceed 50 years and span exploration, feasibility studies, the building of shafts and infrastructure, production, expansion, closure planning and rehabilitation. This is why governments typically underinvest in maintenance and expansion, and focus more on extracting revenues. The Zambian nationalisation story is a vivid illustration of sustained underinvestment over decades, reducing the value of a rich, world-class asset to almost zero at the point of its privatisation in the 1990s.

Very recently, the Zambian minister of mines confirmed this truth, saying that during the dismal period of nationalisation, the copper mines cost the country $1m per day, while under privatisation they were now earning the state $1m per day, a swing of 200 per cent.

Another important factor to bear in mind is that the debate on nationalisation is occurring in South Africa at a time when the state is turning to the private sector to help fund its massive R900-billion infrastructure roll-out for roads, ports, electricity and transport, because it simply does not have sufficient resources to cover all the demands of its core activities or, indeed, the capacity to run these facilities.

This is why the worldwide trend is away from state ownership of mining; the focus of most governments these days is on efforts to optimise revenues from privately run mining companies.


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> Major black-owned mining companies and black economic empowerment (BEE) participants would be among the losers in the case of expropriation without compensation.

More jobs

Putting more South Africans to work is a goal we all share. There is a compelling case to challenge both the public and private sector to increase employment wherever they can, although the government's new growth path rightly requires the overwhelming majority of employment creation to be by the private sector (and implicitly by new firms, as economic growth accelerates).

The mining sector currently employs 500 000 people directly and creates another 500 000 jobs through the expenditure multipliers and industries that either use mining inputs or supply inputs to the mining sector (i.e. 12 per cent of total employment in the formal sector). In mining, as in other sectors, however, creating more sustainable jobs depends on growing the sector, finding, developing and exploiting more mineral resources through increased and better exploration, producing more from existing resources (better technology and productivity) and/or marketing existing production more effectively.

Does comparative experience suggest that state-owned mines do any of these three things better than privately owned mines? The international evidence, again, is overwhelming that it is the private-sector mining companies that best create long-term, sustainable employment through productive investment. Chile and Venezuela make good examples. In Chile where the private copper mining industry has grown in the last few decades to several times the size of the dominant state-owned company, Codelco, the state has publicly criticised the latter for its efficiency. Venezuela, one of the very few countries recently to have taken the nationalisation road, vividly illustrates a national oil company comprehensively underperforming its private-sector counterparts in both employment and production.

Improved spatial development

Again, all South Africans should agree that we need to change the spatial character of the South African economy, where poor people often live long distances from their places of employment. But how can state ownership of mines (the location of which is determined by where ore bodies are found) change this? The section on taxes above suggests that the government will have fewer resources to correct the spatial imbalance, rather than more, if mines are nationalised. Yet, at present, the government is struggling to use the considerable tax revenues and royalties generated by the industry to provide effective services in mining communities.

Better salaries and working conditions

Salaries are determined by collective bargaining, and occupational conditions are governed by law and regulation. Unions help in determining the first of these, and the department of mineral resources the second.

In 2010, wages and salaries accounted for R78.4 billion, compared again to R16.2 billion in dividends and R17.1 billion in taxes. If salaries are to go up (when sales remain constant) what will go down? The evidence elsewhere in the world is that when governments cannot find extra resources from the fiscus to pay salaries to which they are committed, and cannot or will not reduce the number of employees to make up the shortfall, they resort to the printing press, thereby progressively devaluing the wages their employees earn in real terms (through fuelling inflation – where everyone loses).

Greater economic and political sovereignty

The state holds all of South Africa's mineral resources in 'custodianship', and decides through a licensing system who is able to explore and exploit them. This was one of the fundamental achievements of the Mineral and Petroleum Resources Development Act 28 of 2002 (MPRDA), which changed the previous system of private and public ownership of mineral rights into a state custodianship system. Via the MPRDA and Mining Charter, the industry has been opened up, and a considerable degree of access to ownership and management of mines for historically disadvantaged South Africans has been created. How much greater sovereignty is achieved by also owning the private mining companies that do this?

What about the costs?

We need to consider, firstly, the costs of taking ownership. Would this be done without compensating any present owners? Through revenue distribution, black South Africans are beneficiaries of about half of the institutional holdings in mining shares, and they, as well as their white counterparts, thus stand to lose large portions of their savings and pensions, which would be expropriated by the state in the name of enhancing their welfare. Furthermore, if foreign owners (substantial in all mining sectors, and often with holdings of more than 50 per cent) were not compensated, governments, both from fellow BRICS states – Brazil, Russia, India and China – and the traditional developed world would in all likelihood invoke international treaties to protect their interests. South Africa's membership of BRICS would be in jeopardy immediately, and it would be in danger of relegation to a pariah status similar to that held during the apartheid years.

Major black-owned mining companies and black economic empowerment (BEE) participants would, of course, be among the losers in the case of expropriation without compensation.

The market capitalisation of mining companies listed on the JSE is R1.9 trillion or 43 per cent of the total market capitalisation of the JSE. In the case of part or full compensation, therefore, the South African government would be required to move very significant resources from present essential applications. In other words, less infrastructure, less health, less education and less welfare spending. There are significant trade-offs that the government has to balance, and the diversion of resources for investment in mining would mean that other vital expenditures would suffer. Of course, the government might seek to raise such resources, in part or wholly, by dramatically increasing individual and corporate taxes. The effect of this would be to reduce investment and employment elsewhere in the economy, leaving the country worse off than before.

Why would anyone want to spend R1.9 trillion in state resources (which would massively add to the country's debt levels) when the benefits of expenditure, downstream beneficiation and employment are already substantially created by the mining sector in South Africa. The cost-benefit analysis of nationalisation just does not make economic sense.

More important than this once-off cost is the cost of foregoing non-state investment in the future of our mining industry. A mine is a factory of which the construction is never finished. Mines are capital-hungry economic machines. South Africa is a capital-scarce economy and, at present, the state lacks the resources even to fulfil its core mandates optimally. Within the nationalisation scenario, there is a very strong likelihood that our mining industry would sink rather than grow if it were to have access only to state investment. This is especially the case in terms of the recruitment of skilled South African mining personnel by international mining companies in a context of significant skills shortages. The lesson of history is that citizens of democracies are not inert pawns to be moved around at will by power-driven politicians. Many scarce, highly skilled employees, such as engineers and managers, would exercise their right to choose to work where they would be compensated best.

There are other important, but perhaps less tangible costs. These include the fact that: state ownership of such a large industry denies the opportunity not only of entrepreneurship through venture capitalism, but also of business ownership to all citizens; access to the technology, innovation and best practice of global investors is limited; and regulatory conflicts emerge as the government becomes both an economic player and a regulator.

Are there alternative policies that might work as well or better?

The Mining Charter, a document whose intention was to govern the race, gender and, indeed, broader transformation of this sector, was reviewed and revised in September 2010. The new Charter sets out specific targets with regard to racial ownership, equity procurement, equity enterprise development, beneficiation, employment equity, human resources development, mine community development and housing and living conditions. Specific timelines are attached to each of these targets, sometimes year by year.

There are few, if any, other parts of the economy with a more detailed plan for transformation.

The revised Charter was painstakingly negotiated between the government, trade unions representing mine-workers, and the representatives of shareholders. Such a social compact, in a country where all social actors constantly refer to the need for such compacts, is worthy of analysis and debate.

A second stakeholder process is underway in this industry, which aims to grow the economic pie that is available to all South Africans by exploiting the country's untapped mineral wealth (by some reckoning, the largest in the world). This is the Mining Industry Growth, Development and Employment Task Team (MIGDETT). The objective of this process is to ensure the long-term growth and meaningful transformation of South Africa's mining industry, as well as the equitable inclusion of all stakeholders in that growth. A dialogue between proponents of this process and those who argue for nationalisation should be of benefit to both sides, and to all South Africans. Minister Pravin Gordhan, in his Medium-Term Budget Statement of 25 October 2011, made his sentiments on the nationalisation issue very clear when he said regarding the mining industry:

> Energy constraints, inadequate transport capacity and uncertainty in the regulatory environment have held back progress. In contrast, mining production expanded by 30% in Australia, and 44% in Brazil between 2003 and 2010. This has provided a huge boost for investment, tax revenues, jobs and incomes in these countries. Minister Shabangu's engagement with the Chamber of Mines on increasing investment in our mining resources is therefore to be welcomed.[2]

Resources that lie beneath the soil represent potential, not actual, wealth. Mere slogans and poor policy will ensure that such wealth remains dormant, and that South Africans are deprived of its benefits.

Notes

1. This article is adapted from a piece by Michael Spicer and Bobby Godsell (*Business Day* 1 July 2011).
2. Interestingly, these remarks were echoed even more forcefully by Minister Trevor Manuel at the Sunday Times Top 100 Awards dinner the same evening (see Manuel 2011).