OPINION | Nationalisation of mines

A NECESSARY STEP TOWARDS ECONOMIC LIBERATION

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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-

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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.