BURDENING THE STATE DOES NOT SERVE THE CAUSE OF ECONOMIC LIBERATION

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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.

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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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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).