OPINION | Nationalisation of mines

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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-

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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

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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).