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PEOPLE'S DENATIONALISATION

by

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Introduction

The African National Congress Youth League (ANCYL) marched from Johannesburg to the Union Buildings in Pretoria on 27 and 28 October 2011 to deliver their demand for “economic freedom” policies to be adopted in South Africa. However, the demands they make constitute policies that are the very opposite of the real meaning of the words “economic freedom”. To affix the term “economic freedom” to a call for government to act as a tyrant and ruthlessly take private property “with or without compensation” is perverting language and its meaning.

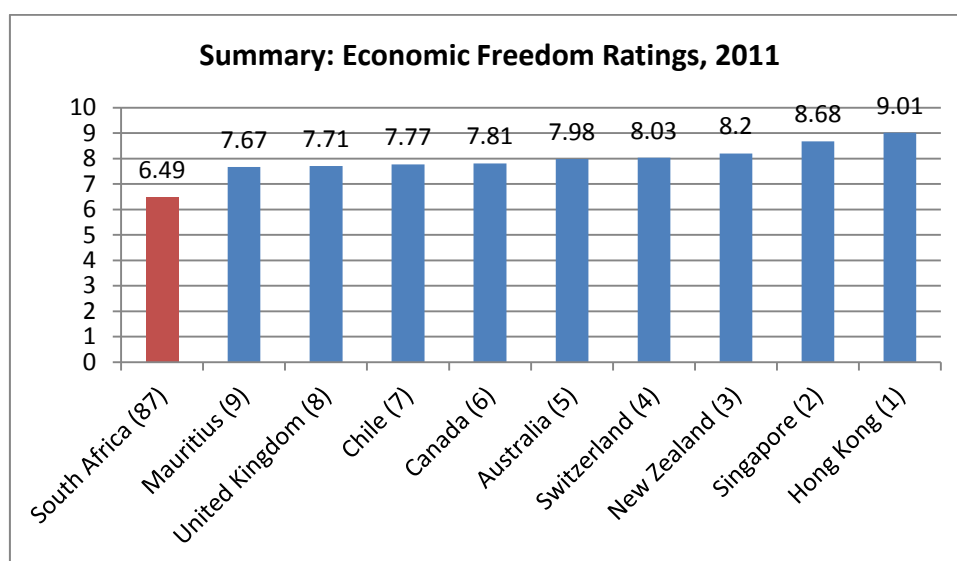
The cornerstones of economic freedom are personal choice, voluntary exchange co-ordinated by markets, freedom to enter and compete in markets, and protection of persons and their property from aggression by others. This means that ANCYL’s demand for the nationalisation of the mines is anti-economic freedom, as are its demands for forced local beneficiation, prohibition of labour broking, and taking property without just compensation.

Economic freedom is the best policy option

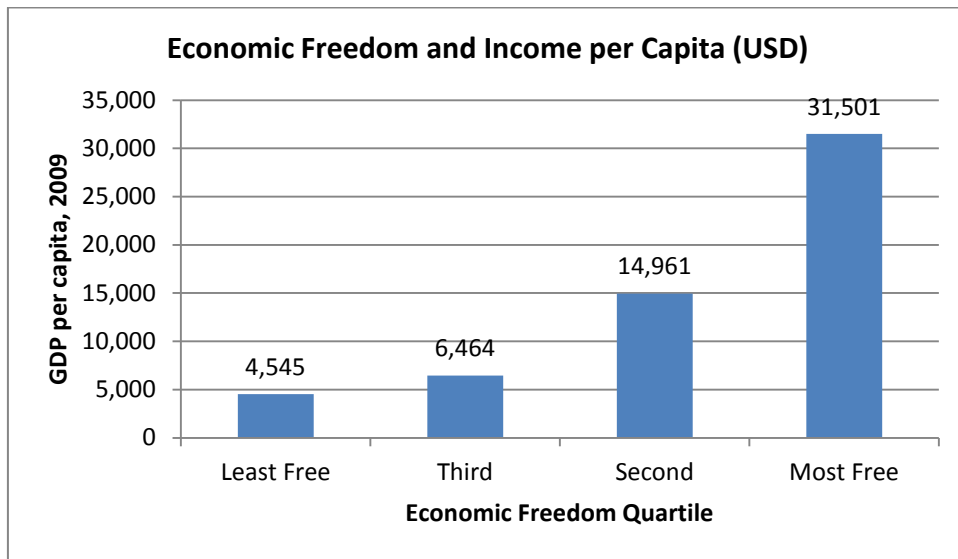
The ANCYL is correct in concluding that economic freedom (in its true sense) can play a major role in increasing employment and reducing poverty. Countries with the greatest levels of economic freedom (Hong Kong, Singapore, New Zealand, Switzerland, Australia, Canada, Chile, the United Kingdom and Mauritius) have higher per capita incomes (including the poorest 10 per cent of their populations), higher life expectancies, less corruption, less serious crime, and greater political rights and civil liberties than the less free countries.

Members of the FMF are as concerned as the ANCYL about poverty and unemployment in South Africa. We have been arguing for many years for increased economic freedom as a means of improving conditions for the poor and jobless. Sadly, as a result of adopting unwise policies, South Africa now has less economic freedom than it had ten years ago. The country has slipped from 42nd to 87th on the economic freedom index according to the *Economic Freedom of the World Annual Report 2011*.

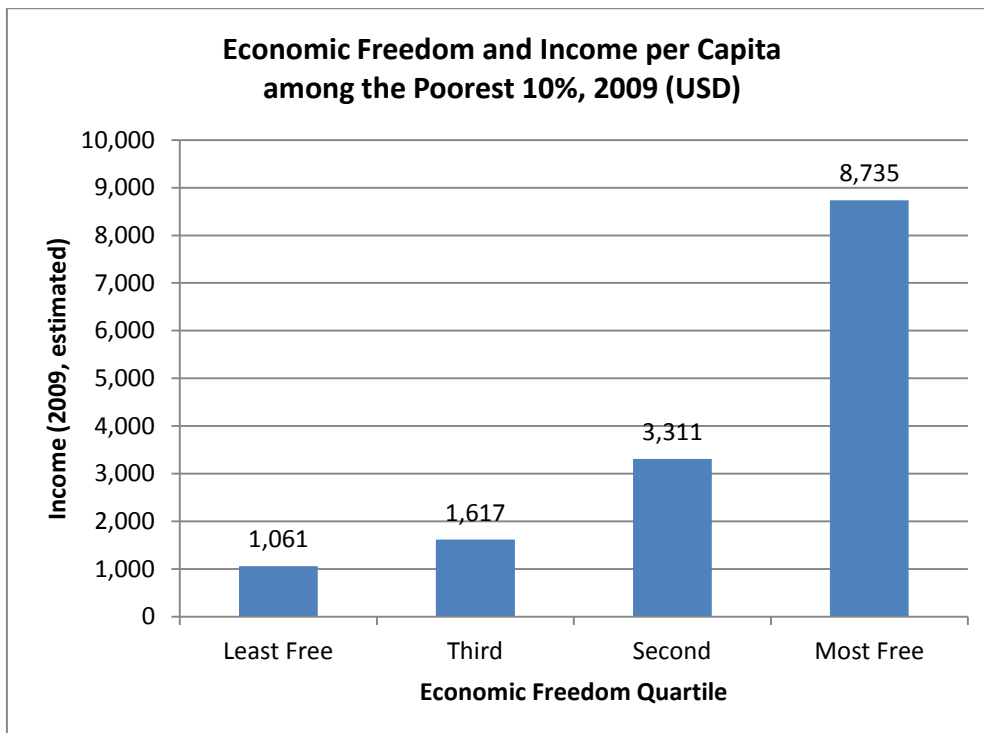
Countries are given economic freedom ratings, with ten denoting the freest. In the graph below South Africa is compared with the nine top ranked countries.



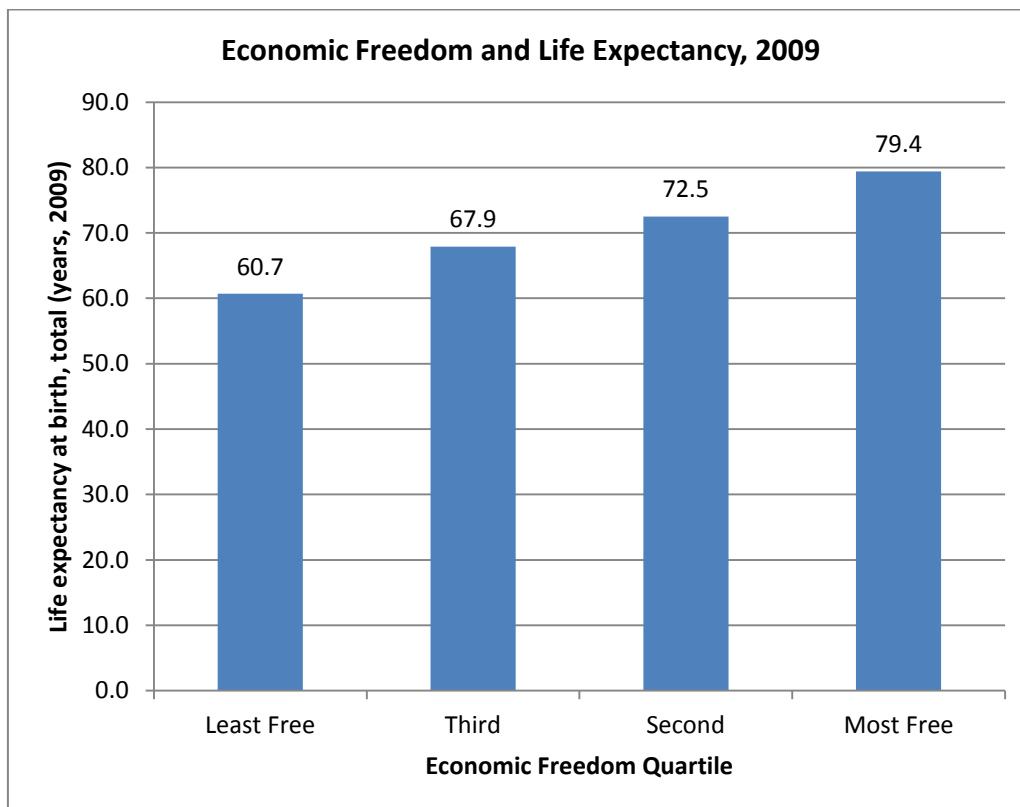
Countries with more economic freedom have substantially higher per capita incomes. Countries are grouped according to their economic freedom ratings.



The amount, opposed to the share, of income by the poorest 10% of the population is much higher in countries with greater economic freedom.



Life expectancy is about twenty years longer in countries with the greatest economic freedom than it is in countries with the least



Policies to create a truly prosperous and peaceful nation

What kind of society do we South Africans want for ourselves and our children? We would probably like to have a society based on the following fundamental institutions and freedoms such as:

- Equality before the law
- Economic freedom
- Secure property rights
- Freedom of speech, and
- Freedom of political association

Constitutional protections and sound economic policies are adopted for the long term. They are not intended to be manipulated for short term political gain. If the ANCYL members want their children and further descendants to inherit their houses and other property, they should not argue for the weakening of the property rights protection in the constitution. They cannot be sure who will be in control of the government in future. Today's politicians should therefore support limitations on government powers on the premise that they or their descendants might need those protections if their worst enemies should ever take over the reins of government.

The apartheid curse hanging over South Africa

South Africa is hindered by the legacy of apartheid from achieving the most desirable institutions and conditions within an economically free environment. The apartheid curse will hang over the nation for decades if deliberate action is not taken to bury it and put it behind us forever. It is

impossible to change the past but government can compensate those who suffered most for the harm that was done to them by apartheid policies.

It was apartheid-era governments, in their role as custodians of the state, that inflicted the harm, and it is post-apartheid governments, in the same role, that have inherited the unenviable task of compensating apartheid's victims. It would have been difficult, costly and time-consuming for the courts to determine monetary compensation based on evidence of harm suffered by the victims of apartheid. Corrective action is therefore being carried out arbitrarily based on other criteria, mainly race. Inevitably, many people and families who suffered real harm as a result of apartheid policies have not and will not receive compensation. Then there are those individuals who suffered no or comparatively little harm who have received and will in future receive generous benefits.

An unfortunate factor in the attempts to bring about accelerated transformation through the Black Economic Empowerment legislation and regulations is that demands on government from beneficiaries and potential beneficiaries will tend to grow exponentially as time goes on. Preferential policies, once instituted, are difficult to remove because of the vast vested interests they create. The most feasible way to approach the vested interest problem is to institute an alternative system with a termination date. This paper puts forward such a proposal.

In 1999, Professor Themba Sono, then FMF President, wrote *From Poverty to Property*, a book that offered an alternative method of taking corrective post-apartheid action. The proposal, which has wide depth and scope, still has the potential today that it had twelve years ago for bringing about a history-changing transformation in the country. In the introduction to the book he said:

“South Africa is endowed with enterprising citizens, natural resources, and a not inhospitable geography, and she has just emerged from the tragedy of past errors. In our attempts to shape the future and to improve the conditions of the victims of such errors, we must not create new victims. Our economic transformation must be revolutionary but it must also be just, fair, and comprehensive. This book presents such an option.

Individual rights are not merely political and social; they are fundamental, and thus economic: that is, the right to life, to security, to property, to economic pursuits. Across the globe there are more than 1.3 billion human beings who struggle to survive on less than a dollar (R6!) a day. More than 35,000 children globally die of malnutrition and preventable diseases daily. The economic transformation proposed in this book is an attempt to arrest, in the South African context, the economic destitution that afflicts the needy of all races. Heartless is he who can look into the eyes of a hungry child in the arms of its emaciated mother and say “Go away, I do not want to help you because you belong to a previously (dis-)advantaged group.” We must create a humane society, one of compassion and fairness.

The majority of beneficiaries of this economic transformation will undoubtedly be black families, not only because black Africans are numerous in population terms, but also because they were the special targets of apartheid misrule. In South Africa today, however, poverty knows no colour or race. It is for this reason that a *means test* should be applied in order to provide the benefits enumerated in this book to the truly needy, the genuine poor, of all races, colours, and creeds.”

In his book, Professor Sono describes policies that had at various times been put forward by members of the FMF as an alternative to a claims-based, courts-adjudicated, method of compensating the victims of apartheid. He was adamant that poverty should be used as a proxy for determining the identity of the victims of apartheid in deciding who should receive compensation.

His view was that all the poor, identified through the application of a means test, should be eligible for compensation. The approach he suggested should remain acceptable to those who, rightly or wrongly, claim that poverty today is still directly attributable to apartheid policies.

Dead capital versus live capital

Hernando de Soto, in his books *The Other Path*¹ and *The Mystery of Capital*², describes how poor people in developing countries are hampered by lack of capital and secure title to property. Capital (such as land and housing) over which people have use rights but to which they do not have secure legal title he calls “dead capital”. Because they do not have title, the people are unable to borrow against their properties to start or capitalise businesses for purposes of earning or augmenting incomes. Further, there are no housing markets and people are therefore not mobile. If they decide to move from one area to another they may be compelled to abandon their homes to another government-designated occupant.

Other assets held by government are similarly not put to their best use. Governments generally shield public enterprises from competition, often totally prohibiting competition, or granting such enterprises special privileges in the pricing of products, outright subsidies, or preferential interest rates through government-guaranteed financing. Large land areas and quantities of buildings held by governments are not subjected to the competitive test of being available to alternative owners who can put them to better use. As the public enterprises, land and buildings are not available on the market to be purchased by competitive bidders they are, in that sense, “dead capital”. In the hands of private owners they would become “live capital” and gravitate to owners who could put them to better use.

Parts of companies held by private shareholders, including majority holdings in such companies, are constantly changing hands. Ownership tends to gravitate to those who can ensure more efficient management. Companies that lose money, become insolvent, they stop attracting new investment, are liquidated and the assets are taken over by new owners. When companies are constantly “on the market”, they are compelled by competition in the products or services they supply, or for the assets they own, to use capital and assets efficiently and to provide good value to customers. Public enterprise managers and government employees are not subjected to the same pressures to use resources effectively.

“Dead capital” consequently consists of all assets that are in the hands of the state. Managers and staff of public enterprises may try to simulate the conditions that exist in private enterprises and succeed to a certain extent in improving performances but they can never be entirely successful unless they are fully subject to open competition, including the possibility of the enterprise being, at some point, taken over by private purchasers.

People’s denationalisation

Proponents of nationalisation tend to ask “What is the alternative” when questioned as to how their proposal to transfer assets from an entrepreneurial and competitive private sector to an uncompetitive monopolistic state will help the poor. Although they do not explain what they mean by the question, it can be assumed that they are asking how else poverty will be relieved. The alternative is to do the opposite of nationalisation; denationalise public enterprises and other state assets by transferring the assets, or the proceeds of the assets, directly to the poor.

¹ De Soto, Hernando. *The Other Path: The Invisible Revolution in the Third World*. Harpercollins, 1989.

² De Soto, Hernando. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. Basic Books, 2000.

The apartheid government accumulated huge assets, paid for by past taxpayers, and it would be fitting that these assets be used to compensate the poor as proxies for the victims of apartheid who are not receiving adjudicated damages. Transferring the assets out of the hands of the state into the hands of poor people would have the simultaneous effect of transforming “dead capital” into “live capital” and truly liberating the country’s poor.

Transfer ownership of state-owned enterprises to the poor

Distribute vouchers to needy citizens on a non-racial and means-tested basis. These vouchers would entitle recipients to a specific share in the state-owned enterprises (SOEs). The benefit has the potential to be worth in the region of R15,000 to R30,000 per qualifying family.

Government could arrange for unit trust companies to exchange the vouchers for units in a list of approved trusts to assist families who are not familiar with share ownership. Otherwise they could exchange the vouchers for shares in SOEs of their choice. Engaging unit trust companies/managers would facilitate the process for beneficiaries and allow them to leave the decisions regarding the exchange of vouchers for shares to seasoned professionals.

In 1999, the Department of Public Enterprises estimated the value of the total assets of twenty one of the top SOEs at R174bn. That value would have increased considerably in the interim. If we add the potential value of the rest of the SOEs, allow a substantial amount for liabilities, and add a premium over net book value, the voucher amount available for distribution could be as much as R100bn

Benefits

- Each deserving family receives units in a unit trust or shares in SOEs worth an estimated R15,000 to R30,000.
- People living in the remotest rural areas who would otherwise miss out on government transformation projects will be included.
- A reduction in welfare and other demands on the state.
- A more contented nation.

Transfer vacant state land to the homeless

The number of informal settlements around the country provides clear evidence that there is a large housing backlog, which does not appear to be reducing. In order to alleviate the housing shortage, it is proposed that government should utilise vacant state land (central, provincial, and local) to allocate plots of 200 square metres on a freehold title basis to homeless families on vacant state land.

Use a simple, low-cost form of registration, defining the boundaries by description and sketch plans, and make existing land survey and deeds registration formalities inapplicable to such land. This would reduce the cost, increase the quantity and accelerate the pace at which land can be provided. The establishment of informal housing provides evidence that people are prepared to provide their own shelter if they have land.

Reduce the building restrictions on these plots so that owners can build whatever housing they can afford. If they own the land, owners will have an incentive to build houses with a future resale value and to continually improve the quality of their dwellings as funds become available.

People who are living in informal settlements and have their names down for Reconstruction and Development Programme (RDP) housing may be reluctant to move to a plot under this proposed scheme for fear of losing their place in the RDP queue. This fear could be allayed by absolute

assurances that their places on the RDP housing list are secure. In addition, they would be assured that they could sell and recoup the cost of anything they built on their freehold plot.

Benefits

- Delivery of secure freehold title land with a value of an estimated R10,000 to R20,000 to homeless families.
- Removal of registration formalities and building restrictions will allow the rapid delivery of land to the landless.
- Creation of a large number of better and more immediate alternatives to current informal housing.
- Properties of their own for all South Africans offering greater security than they currently have in informal settlements.
- Homeless families will be able to decide for themselves whether or not they are prepared to accept such freehold title plots among the alternatives available to them.

Upgrade title to land currently occupied by households

Many black South Africans occupy state land (controlled by central, provincial and local government) that is still under apartheid forms of title. Grant secure freehold title to all people who hold various forms of apartheid title to land (including homes in communal areas) and allow them to hold, use and enjoy, sell, let, and mortgage the land and the rights in such land. Retain the integrity of traditional communities by restricting transfers of community property to other members of the community and to such other persons as are unanimously welcomed by the community. Remove restrictions on RDP housing and allow home owners to sell or let their houses as they wish. Develop low-cost forms of registration to accelerate the upgrading of title to land, defining the boundaries of properties by description, sketch plans and the use of new technologies to avoid the cost of traditional land survey methods.

Benefits

- Transfer of freehold title ownership of land and buildings which families currently occupy legally but do not own, will add an estimated average value of R100,000 per family to their assets, dramatically enriching millions of South Africans at little cost to government and taxpayers.
- Granting of secure freehold title to such properties would constitute a huge transformation of “dead capital” into “live capital”.
- The value gained by families will be reflected in a major market in property where no market currently exists, large-scale job creation in the home improvement market, and increased entrepreneurial activity as people leverage their new-found wealth to start businesses.
- A substantial migration of families, released from what currently amounts to “house arrest”, under the system that requires them to remain where they are or lose the usage rights to their homes.

Create Economic Development Areas (EDAs)

Declare low-income areas of the country, especially rural areas to be Economic Development Areas (EDAs) in which people engaged in economic activity are relieved of some of the costly burdens to which they are currently subjected. Give the people conducting business and working there a window of opportunity for (say) five or ten years during which:

- Profits earned by businesses are tax-free.
- Income earned by employees is tax-free.
- Businesses are exempted from laws that unnecessarily impede the carrying out of their business activities, such as laws and regulations that prevent them from starting businesses, or that impose

high costs, such as all the laws and regulations relating to the hiring of staff that are really intended to apply to big businesses and not to small struggling businesses in low-income areas.

- EDA areas should be specifically exempted from zoning schemes that attempt to prevent people from conducting business in residential areas of former “townships” or “locations” as some residents still call them. These areas were designed to have no, or very limited, business activity in them as residents were expected to buy all their requirements in the former “white” areas, so no western-style town planning was applied to them and such planning is therefore not suitable for application to them. A form of “neighbourhood law” that protects neighbours from undue nuisance should be developed to apply in EDAs so as not to unnecessarily curtail economic activity.

Qualification for EDA benefits should be specifically aimed at doing what Black Economic Empowerment is intended to do but in this case is aimed specifically at the upliftment of the former apartheid “dormitory” areas and the rural areas that were set aside for occupation by black South Africans. A simple rule can be followed to determine who should benefit: the beneficiaries are to be those who are engaged in the EDAs who would have been disadvantaged by the pass laws, Land Acts and job reservation if those laws still applied.

Benefits

- Creating real potential benefits and incentives for the people in low-income urban and rural areas will help them to create wealth and transform those areas. The harder people work and the more money they make, the greater their EDA benefit would be.
- Accelerated activity in the EDAs as the millions of zoning beneficiaries leverage the benefits of people’s denationalisation (ownership of SOEs, land and housing) leverage their new economic status to dramatically improve their lives.
- No one left behind as the benefits are directly targeted to improve the lives of the most vulnerable people in the country, reaching out into the most remote rural areas of the country without having to add anything to the country’s budget.

Denationalise the unemployed

There are two ways to denationalise the activities of the potential entrants into new employment contracts that could dramatically reduce unemployment in the country. The one method would be to denationalise businesses and allow them to contract freely with employees on mutually beneficial terms without government intervention. This method would attract immediate opposition from labour unions and cause friction between the partners in the tripartite alliance.

The other method would be to denationalise the unemployed and allow them to contract freely with any employer of their choice on simple, mutually beneficial terms without government intervention, with the unemployed person being the only determinant of what terms are beneficial. This second method should not attract opposition from the labour unions as they surely do not take some form of sadistic pleasure in keeping the unemployed out of the job market. As matters stand, the unemployed are nationalised assets that remain so at the pleasure of the legislature. To denationalise the unemployed in this manner, would ensure that their access to the labour market disturbs the job security of people who already have jobs as little as possible.

The simple conditions of contract could be:

- Grant every person who has been unemployed for six months or more a Job Seekers' Certificate that is valid for two years, allowing the certificate holder to enter into an employment contract with any employer on any terms the job seeker finds acceptable and with no limit on the number of times the job seeker can change employment during the validity period of the certificate.
- Require a written contract to be entered into on inception of employment so that the conditions of employment are clear and unambiguous.
- Make a minor change to the labour law creating the Job Seekers' Certificate, stipulating that the holder of the certificate is exempt from the provisions of the labour laws, and that the employer of a Job Seekers' Certificate is similarly exempt in respect only of the holder of the certificate and no other employees.

The six month waiting period is to ensure that employers do not dismiss employees and offer to take them back when they are in possession of a Job Seeker's Certificate. A written contract will protect the holder of the certificate in the event of disputes and provide evidence to the Department of Labour that the requirements of the law have been met. Applications for certificates should be dealt with as expeditiously as possible and with a minimum of administrative requirements. Sworn affidavits should be accepted as evidence of periods of unemployment, officials having warned signatories of the penalties for providing false evidence, and steps should be taken to ensure that the process is not destroyed to the detriment of the unemployed by corrupt practices.

Once long-term unemployed people are in possession of Job Seekers' Certificates, they will discover that jobs are much easier to find because the relationship between employer and employee will be conducted free of the usual entry barriers and compliance costs. Changing jobs will also be much easier and certificate holders will not be tied to dead end or extremely low paying jobs. They will be free agents in the true sense of the word and no longer the nationalised victims of laws that were intended to manage relationships between big labour and big business and not to entangle the little person.

Benefits

- If 5 million of the currently unemployed people were allowed to earn an average R1,000 per month there would be a potential R60-billion per annum in the hands of the poorest families in the country.
- This amount would rapidly escalate to R180-billion per annum as the workers gained experience and skills.
- Most of the jobs would be in the private economy so a reduction in the welfare budget would allow government to spend the saving on other much-needed services to the poor.
- Poverty does not lead to crime but idleness and total lack of income will inevitably result in increased crime – people's privatisation will reduce the incidence of crime.
- The work of the 5 million entrants into the job market, at very modest wages, would add a substantial amount to the growth of GDP

Estimating the benefits of people's denationalisation to the average qualifying family

Transfer ownership of SOEs to the poor

Estimate of R15,000 to R30,000 (say) R 22 500
(Shares or units in a unit trust resulting from the transfer of ownership of the state industries to the people.)

Transfer vacant state land to the homeless

Estimate of R10,000 to R20,000 (say) R 15 000
(Average value of the right to sell the plot)

Upgrade title to land currently occupied by households

Estimate of gains per household R100 000
(Average of the value that will be gained by families whose properties are upgraded to secure freehold title)

Creation of economic development areas (EDAs)

Estimate of annual benefits to the economically active R 5 000
(No income tax, less regulation for every year the benefit continues)

Denationalise the unemployed

Estimate of annual R12,000 to R36,000 (say) R 24 000
(An estimate of the annual value of employment at low wages versus no wages – the family benefit could be higher if more than one member were to benefit)

Full benefit per family

Estimate for a family that benefits fully from all aspects of people's denationalisation:

SOE shares or units in unit trust R 22 500

Upgrade of title to property R100 000

EDA benefits (say 5 years) R 25 000

Denationalise the unemployed (say 5 years) R120 000

Total

R267 500

Estimates of potential total benefits to the poorest people in the country

	R (billion)
Transfer ownership of SOEs to the poor	100.0
Transfer vacant state land to the homeless	1.5
Upgrade title to land currently occupied by households (262 municipalities)	400.0
Economic development area (EDA) benefits	50.0
Denationalise the unemployed	600.0
	<u>R1 151.5</u>

Benefits of people's denationalisation

People's denationalisation as described in this paper would make a massive difference to the South African economy. Urbanisation would be slowed as rural people gain title to their properties, providing them with collateral with which to raise money to start their own businesses. Recipients of the SOE shares or units, a plot of land, upgraded title to their homes, EDA benefits, and those who have their labour denationalised would rapidly accumulate capital and become a force to be reckoned with in the country's economy.

Anyone reading this paper will recognise that denationalisation of the economy has enormous advantages over the proposal to nationalise the mines and other aspects of the economy. The proponents of nationalisation have made no effort to explain how the poorer citizens of South Africa are supposed to benefit from transferring functioning, productive and vibrant economic entities from their current owners to the state. They do not explain how the government is supposed to find the money to pay for nationalised enterprises, and if their proposed nationalisation without compensation is implemented, how the enterprises are supposed to function in the absence of the highly skilled people who currently work in them – people and skills that are in high demand in other countries. In other countries, nationalisation has yielded poor results and no benefits for the average citizens.

Denationalising the economy has quantifiable advantages, not least of which will be the emergence of competitors in the fields currently monopolised by SOEs. Possibly some of the SOEs operate so efficiently that they will keep out competitors but we do not know this as their monopoly status has not allowed them to test their skills against potential entrants.

When Deng Xiaoping took over on the death of Mao Zedong, he set about decentralising and denationalising the Chinese economy. For instance, the former owners of the Minsheng Shipping Company, at one time China's largest conglomerate until it was nationalised in 1949, were authorised in 1984 to resume operations. According to economist Alvin Rabushka, "Chinese leaders hoped that Minsheng would improve shipping efficiency and service, forcing state-owned agencies to increase their efficiency" and "the revival of Minsheng Shipping Company exemplified the growing attempts by China to utilise the skills of its former capitalists for economic advancement."³

Further liberalisation was conducted through the establishment of Special Economic Zones (SEZs), commencing with Shenzhen (adjacent to Hong Kong) and Zhuhai (adjacent to Portuguese-administered Macao), Shantou and Amoy. These zones allowed the Chinese government to create areas within their borders that functioned similarly to the highly successful free market economy of

³ Alvin Rabushka, *The New China, Comparative Economic Development in Mainland China, Taiwan, and Hong Kong*, 1987, Pacific Research Institute for Public Policy, USA

Hong Kong without liberalising the rest of the country, which would have had potential political ramifications. Moving from communism to capitalism is not as easy as changing in the other direction – building freedom and capitalism or free markets requires the painstaking creation of the institutions of a free society: personal choice, voluntary exchange co-ordinated by markets, freedom to enter and compete in markets, and protection of persons and their property from aggression by others. China is going through the painstaking process of creating those institutions. Meanwhile, their SEZ free territories, which are producing the wealth necessary to improve the lives of the people, serve as an example of what could be done in the rest of China, and pay the costs of the liberalisation process.

If China is having spectacular success with denationalisation and application of the true principles of economic freedom why would South Africa even consider going in the opposite direction? Denationalisation, as this paper demonstrates, has a great deal to offer the poorest people in the country.