

Oral Evidence to the parliamentary portfolio committee on mineral and energy affairs
Comment on the green paper “A Minerals and Mining Policy for South Africa”
(December 1997)

20 April 1998

PRELIMINARY

The government’s overall objectives — adopting policies that would promote racial and other forms of equity, and provide opportunity for the empowerment of the disadvantaged people and small scale mining enterprises — are supported enthusiastically. Likewise most of the specific proposals are supported. For the sake of brevity and in the interest of making a material contribution this submission addresses only the proposed nationalisation of mineral deposits.

NATIONALISATION OF MINERAL RIGHTS

Arguments for and against nationalising the two-thirds or so of mineral rights which are privately owned are stated in the GP but not analysed critically, or substantiated empirically or theoretically. Arguments advanced by proponents and opponents of the idea are listed at 1.3.3.1, and the government’s reasons for wanting to nationalise minerals are listed at 1.3.6.1.

Nationalisation, especially at this time in South Africa’s and the world’s history, is an extreme proposal, with potentially adverse consequences and implications not apparently realised by the GP’s authors. We urge the government to reconsider this proposal for the following reasons:

General

1. It is instructive that the word “nationalise” is avoided, except for the purpose of repeating the government’s opposition to it (2.1, iv). This may be in recognition of the fact that nationalisation is no longer an internationally acceptable policy option in the modern world. That nationalisation is contemplated, however, cannot be concealed from the international community.
2. In its extensive contacts with some of the world’s leading investment advisors the Free Market Foundation found, as others have done, a wide-spread positive response to the pro-market evolution of economic policy in South Africa. Many observers have been waiting for convincing evidence of the government’s commitment in practice to its articulated policies. This wait-and-see attitude amongst investors and economic policy analysts amounts to a concern that the government might fall between the two stools of recognising, on the one hand, the importance of adopting bold and effective policies, whilst being unconvinced, on the other hand, of the paradigm that informs GEAR and related policies.
3. That nationalisation of minerals is being considered at a time when virtually nothing has been nationalised anywhere on earth for a decade sends a needlessly negative message to the world.
4. At this time in South Africa’s history it is particularly crucial for the government not only to adopt sound economic policies, but also to convince local and foreign investors and commentators that it is doing so. Departures from consistency should be contemplated in only exceptional circumstances.
5. Nationalisation of minerals — found in most countries — is, like the nationalisation of much else, an historic phenomenon. Reasons vary from those countries where minerals were never privately owned to where nationalisation occurred at a time when the established view was still that nationalisation would result in improved efficiency.
6. Widespread nationalisation of mineral deposits is proving to be as flawed as widespread airline nationalisation is now recognised to have been.

7. There is now overwhelming empirical and theoretical evidence against nationalisation in general and minerals in particular.

ARGUMENTS FOR NATIONALISATION (1.3.3)

1. Nation's endowment; government as custodian (1.3.3.1.ii.a)

That something is a national endowment does not imply that the national interest is for it to be nationalised. The most obvious example is land. One of apartheid's great atrocities was the nationalisation of virtually all the land held by black South Africans and much of the land in "white" areas, which is now being returned to the people. Likewise government's custodianship: one of the most important things of which government is custodian is "private" property rights. Custodianship normally implies the safe keeping of someone else's person or property.

Whether or not the government is or ought to be the custodian of mineral deposits, or whether they are a private or national endowment, does not, in and of itself, establish what the optimal form of ownership might be.

2. Public ownership and successful exploration (1.2.2.1.ii.b)

Two issues arise in this context:

- 2.1 whether exploration *per se* constitutes "successful" exploration — clearly it does not — and
- 2.2 which form/s of ownership are optimal.

It is unlikely that nationalisation of mineral wealth will be more efficient than private ownership for the same reason that nationalisation is sub-optimal in other contexts. There are many reasons why this is so and there is voluminous evidence of the superiority of private ownership in the real world.

Amongst the reasons are that:

1. Economic incentives tend to be distorted in the government sector and positive in the private sector. Governments, for instance, do not keep balance sheets — they have no idea what their assets are — and this deprives them of any realistic prospect of efficient resource management.
 2. Private ownership promotes exploitation at the right time and cost. Private owners are rewarded by the market when they make correct decisions and are penalised when they make the wrong ones. The self-interest of people in the private sector tends to coincide with both the optimal utilisation of resources and the government's objectives articulated in the GP — mining and marketing to maximal advantage at minimal cost — whereas the self-interest of government employees tends to coincide with the avoidance of innovation and responsible risk, and provides little or no incentive or reward for optimal performance.
- #### **3. Private ownership suppresses exploitation and alternative views (1.2.2.1.ii.c)**
- There is an implicit assumption in the GP that all resources ought to be exploited as soon as possible. One of the seemingly insurmountable problems with government ownership is the impossibility of efficient economic calculation. Prices and markets, and profits and losses, provide spontaneous and efficient signals to entrepreneurs on when and how best to exploit resources. Government is, by its nature, deprived of these signals.

In the ideal world implied by the GP all South African minerals would be extracted out of the ground immediately and gone forever. The nation's resources ought to be seen, as private owners see their resources, as investment capital to be exploited at the right time in the right way, and neither can be known with certainty. The best that governments can do is to create a positive enabling environment.

“Alternative views” are indeed important, because no one can have perfect knowledge. This is a case for private rather than government ownership. One of the main deficiencies of nationalisation is that alternative approaches are, by definition, stifled. Private competitive ownership is characterised by a dynamic diversity of approaches pursued by experts who pay the price when they are wrong. Private ownership results in rapid and continuous error identification and correction, which is impossible under state monopoly ownership.

4. Hoarding; barriers to entry (1.3.3.1.ii.d)

One person’s hoarding is another’s responsible conservation, investment or saving, a schizophrenia in the public policy discourse castigates private enterprise for “exploiting” scarce resources on the one hand and for “hoarding” them on the other hand.

The more responsible view is that complex decisions have to be made at all times regarding the optimal rate of resource exploitation, and that, since it is impossible to know in advance precisely what to do, a multiplicity of decisions should be allowed. This is achieved only through private ownership and/or control. Private ownership of tradable rights is the only effective way of guaranteeing the right of entry by newcomers, and of ridding the country of inefficient users of the nation’s resource endowment. If the government is an inefficient owner (a) the market signals that normally expose inefficiency will have been precluded and (b) there will be no process or even incentives towards efficiency.

5. Fragmented ownership militates against new investments (1.3.3.1.ii.e)

In other areas of economic life, diversity and competition are recognised as militating in favour of entry and efficiency. Mining is no different. The present situation entails diversity. The state as owner of one-third of all mineral rights can utilise them as it sees fit alongside dynamic and diverse ownership. Time will tell which form is superior. There is no need to make a final decision now. Both before and since transition the state has not shown itself to be a superior mineral resource owner. Until it does so, nationalisation should not be regarded as a policy option.

The problem of owner-identification is significant, but something as drastic as nationalisation is not a solution. It is an administrative rather than an economic policy challenge which cannot be addressed adequately here.

6. Small scale miners (1.3.3.1.ii.f)

Efficient utilisation of the country’s resources ought to be the objective that informs policy. The Free Market Foundation has fought longer and harder than any other force in the country for the interests of small business, and has given evidence to the Portfolio Committee on various occasions in favour of removing the anti-small-business bias in existing policy. What is needed, in the interests of small business and the country as a whole, is a level playing field for enterprise of all sizes with appropriate assistance and incentives for small business, such as training, mentoring and finance.

CONCLUSION

Private ownership has proven itself world-wide to be the most efficient form of economic resource ownership. Minerals are no exception. Theory and practice suggest that, if South Africa wants to achieve high rates of local and foreign investment, international competitiveness, rapid human resource empowerment, and efficient resource utilisation, it should be privatising rather than nationalising.