

Nationalisation

In 1990 the market euphoria over the New South Africa was immediately and understandably dashed by the ANC's continued commitment to take over most of the economy. It was especially sad that Nelson Mandela himself reconfirmed his support for the nationalisation clauses of that ancient document, the Freedom Charter – “the mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole”. Even when it appeared in 1955, the Freedom Charter's economics seemed fairly primitive. (To be fair, several professional economists have spoken with approval of Mandela's reaffirmation of the old-time religion.) But to those who did not know or care about economics, nationalisation seemed a mighty fine thing. It was “simply a world trend”, Prof ZK Matthews, the ANC's foremost intellectual and himself no socialist, told the court at the treason trial in 1961.

Denationalisation: Now or never?

Now the world trend is quite the reverse, and accelerating. But, like the Bourbons who have learnt nothing and forgotten nothing, until very recently the ANC did not weary of repeating the discredited jargon of times past. There are those who will not agree with any of this. They will say that if nationalisation has been having a bad Press it is because it has not been done properly. The answer to the ills of state ownership is to have better, more effective nationalisation. They will argue that, especially in a country with such extremes of affluence and poverty as SA, nationalisation is essential to reduce economic inequalities. The virtual abolition of profits will mean that more wealth will be available for distribution to workers in nationalised industries. Consumers too will benefit in the form of lower prices and better service. Industrial democracy will emerge as workers acquire positions of trust and responsibility in public enterprise; their capitalist-induced “alienation” will disappear.

Who gains from state ownership?

Alas, if the world were so simple, universities would be less crowded with hacks claiming to have special insights into the way it works. The truth is that the record of nationalisation in those countries which have ventured upon it has been wretched in a big way. In Britain, state ownership has conspicuously failed to bring forth its expected benefits. Captive consumers have had to pay more and not less for the products of nationalised industry. Inefficient management and poor productivity growth have offered few incentives for large investors to acquire assets yielding so poor a return. Those who did do well for themselves were the workers in state-owned enterprises as their trade unions acquired a monopoly closed shop over the supply of labour vital to key sectors of the economy. But by the same token strikes were endemic to nationalised industry as governments felt compelled to intervene to limit pay rises which crucially affected the economy as a whole.

Not only in Britain, but elsewhere, has nationalisation failed to deliver on its promises. To quote Matthews again: “No, I am not myself particularly enamoured of nationalisation. We have a certain degree of experience of it in this country in connection with the railways. As a user of the railways myself I wouldn't say nationalisation has been particularly successful.”

There is no special mystery about the failure of state ownership and the global trend towards privatisation. Managers in public enterprises face different incentives from those in private enterprises. Managerial inefficiency in private firms will be reflected in declining share prices.

Who loses from nationalisation?

Managers will be aware that they are liable to be replaced by an alternative set of managers if they fail to deliver. The market for managers is a powerful incentive to efficiency. It is an incentive largely absent from public enterprise where managers know that incompetence cannot result in a change in ownership. They simply have less reason to perform well. This is also why private monopolies

(extremely rare creatures, incidentally) are still preferable to public monopolies.

So we can imagine what will happen if the Freedom Charter shapes economic policy. Costs on the nationalised mines will escalate as a sympathetic government allows for larger pay rises than before. But marginal mines will be kept in operation, at public expense, to prevent unemployment. Profitability will decline and new investment will keep its distance. Eventually the government will have to intervene to prevent excessive pay rises in a sector so vital to the economy. The industry will become increasingly strike-prone.

For the banks and “monopoly industry” the prospects will hardly be better. By controlling the banking system the government could regulate the flow of credit into “appropriate”, bureaucratically approved channels. Loans would be made according to “needs”. Ability to repay or to service the debt would become of lesser importance. As for “monopoly industry”, organisations like Anglo American and Sanlam are, of course, nothing of the kind. They are large and diversified enterprises often benefiting from economies of scale. Their transfer to state ownership would in fact do much to promote monopoly.

The truth is that adoption of the Freedom Charter’s economic proposals would mean massive state involvement in the economy. Any apparent continued faith in such a course can most charitably be ascribed to the understandable economic illiteracy of a party out of power for too long. Even our former Nationalist rulers have only recently begun to display some degree of economic sophistication. Intellectual error is not so disturbing. People have been known to change their minds. What is really depressing is that the strong support for nationalisation and hostility to privatisation within the ANC and COSATU may largely be due to the prospect of plunder.

Where continued (or further) nationalisation leads

Previous rulers of SA, like the Nationalist generation of 1948, have set a memorable precedent. After their victory the Nationalists set about with a will to make the SA economy safe for the Afrikaner. The size of the public sector expanded steadily. Its composition changed dramatically, so that by 1968 twice as many Afrikaners were in government jobs as before the 1948 election. But what happened under the Nationalists will seem small beer if the GNU is ever able to implement the economic clauses of the Freedom Charter. Far larger areas of the economy than in 1948 will lie at the feet of a new urban elite eager to get its hands on the swag. What we are able to see is the kind of redistribution which may even make interventionist professors from Stellenbosch blanch – in fact, taking from the rich to give to the greedy.

Economic growth is bound to be a casualty. The rural areas will become more impoverished as they benefit neither from higher growth nor from a redistribution in their favour. Had the Freedom Charter been implemented in 1955, SA today would almost certainly have resembled some of the more backward states to our north. Perhaps, after what happened in Eastern Europe, even the ANC is capable of learning from experience.

*This Briefing Paper was written by Henry Kenney
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