THE CONCENTRATION OF ECONOMIC POWER IN SOUTH AFRICA

T.U.R.P.
TRADE UNION RESEARCH PROJECT

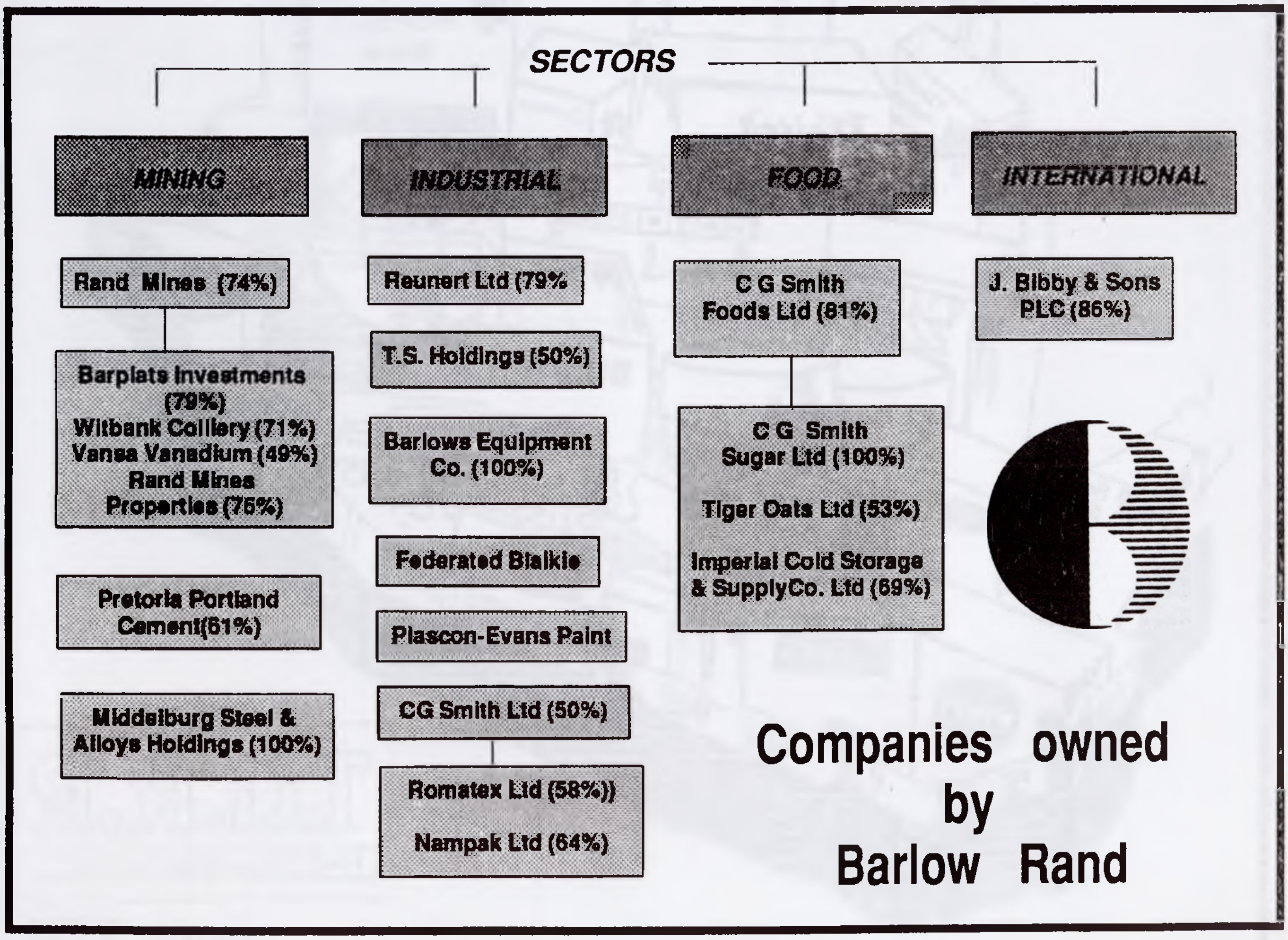
June 1991

THE CONCENTRATION OF ECONOMIC POWER IN SOUTH AFRICA

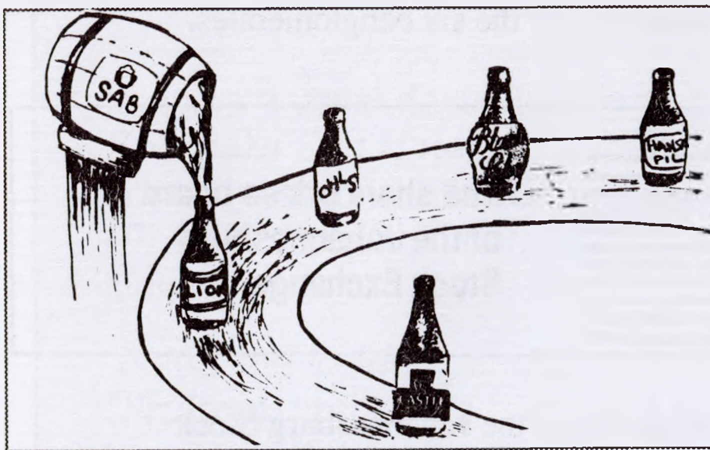
Debate on a post-apartheid economy has once again raised the question of the concentration of economic power in South Africa. It is a known fact that the wealth of South Africa is concentrated in a few hands. For example, it is estimated that **5% of the population owns 80% of the wealth in the country**. At the same time, millions of our people live in poverty. Over half the population in South Africa live below the poverty datum lines (amounts needed for very basic subsistence).

Conglomerates

The South African economy is dominated by a few large conglomerates. A **conglomerate** is a **large company which operates in a number of different industries**. Barlow Rand, for example, is called a conglomerate because it has subsidiaries (companies that are owned by another larger company) in the mining, steel, motor, food, textile, packaging and chemical industries.



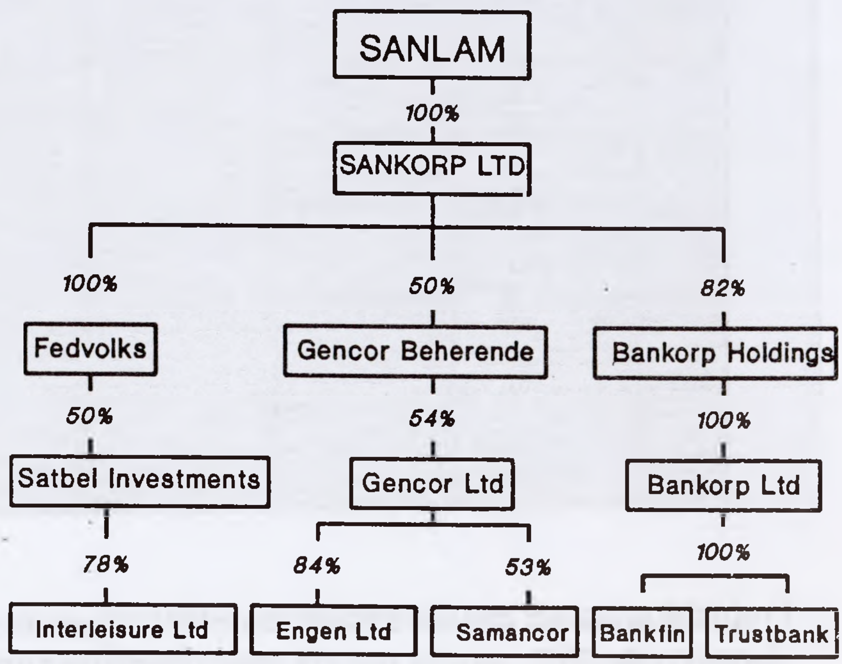
A conglomerate is different to a **monopoly**. A monopoly is a company which **has total control of one particular industry.** Many subsidiary companies of conglomerates are monopolies in their industry. For example, Anglo American is a conglomerate because it operates in many industries. South African Breweries, which is a subsidiary of Anglo (because Anglo controls SAB), has a monopoly in the beer industry.



All major brand names in beer, are manufactured by South African Breweries

The conglomerates in South Africa are set up through **holding companies**. Holding companies are companies that are **set up to own shares in other companies.** They are not operating companies, they merely **hold** shares in key companies which own important percentages of shares in other companies that actually manufacture goods.

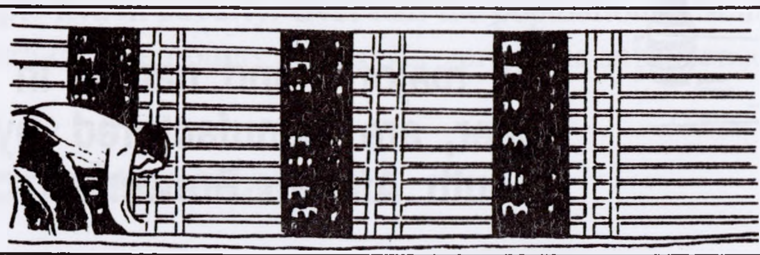
For example, **SANLAM** owns 100% of **Sankorp Limited.** Sankorp Limited is a holding company that owns important parts of other holding companies like **Federale Volksbeleggings, Gencor Beherende Beperk, Bankorp Holdings,** and many other companies. These holding companies in turn own enough shares in other companies to influence any decisions made in these companies. For instance, Gencor Beherende owns 54% of Gencor Ltd which in turn owns 84% of Engen Ltd and 53% of Samancor Ltd.



Six conglomerates dominate the economy

The South African economy is dominated by six conglomerates. These are Anglo American, Rembrandt, SA Mutual, Sanlam, Liberty and Anglovaal.

Many companies in South Africa are listed on the **Johannesburg Stock Exchange.** The majority of these companies are ultimately controlled by the six conglomerates.



The share prices board of the Johannesburg Stock Exchange

The table below shows what percentage of the shares on the Johannesburg Stock Exchange (JSE) were controlled by each of these conglomerates in January 1991.

Conglomerate	*% shares on JSE*
Anglo American	44.2%
Rembrandt	13.6%
Sanlam	13.2%
SA Mutual	10.2%
Liberty	2.6%
Anglovaal	2.5%

From the table we can see that Anglo American alone controls just under 45% of all the shares on the JSE, and the **top six conglomerates control a phenomenal 86.3% of listed shares in South Africa.**

HOW

ANGLO AMERICAN DOMINATES

OUR LIVES

Imagine a usual day in the life of Elizabeth Madlala, a worker at ***Southern Sun Hotels.*** Elizabeth wakes up in her newly painted home, painted with ***AECI*** paints. She makes some meal porridge (***Premier Foods***) in her stainless steel pot (***Highveld Steel***) for the kids.

Being late for work, she quickly drinks a glass of orange juice (***Fruitree)*** and wears her new dress, a ***Da Gama Textiles*** design bought at ***Sales House.*** She wears shoes bought from ***Cuthberts.*** Luckily her neighbour offers her a lift in his ***Ford (Samcor***). They speed into town on the freeway (built by ***LTA).***

Arriving in town, she quickly buys the newspaper (published by ***Times Media*** and the paper manufactured by ***Mondi Paper)*** at ***CNA***,and rushes into the ***Southern Sun Hotel*** in the centre of town.

After work that day, she draws some money at the ***First National Bank*** teller machine and pops into ***OK Bazaars*** to buy some fresh fruit (grown by ***Anglo American Farms***), Blossom margarine (***Premier),*** chicken ***(Bonny Bird***) and dog food ***(Epol).***

She arrives home, cooks the chicken and decides to relax. She drinks a Castle Lager beer (***South African Breweries***), and gives the children some ***Coke*** (distributed by ***Amalgamated Beverage industries).*** After a tiring day, she goes to sleep on her ***Edblo*** bed bought at ***Furniture City.***

All the companies mentioned above belong to **ANGLO AMERICAN, South Africa's most powerful conglomerate**. Anglo American dominates the lives of all South Africans just like it dominates Mrs Madlala's.

Families have control of the conglomerates

Besides the 2 insurance companies (SA Mutual and Sanlam), ultimate control of the conglomerates rests with families who own enough shares to have effective control. For example, the Oppenheimer family has ultimate control of Anglo American, the Hersov and Menell families control Anglovaal, the Rupert family controls Rembrandt and the Gordon family controls Liberty.

HARRY OPPENHEIMER

Head of the Oppenheimer family worth R2.4 billion

ANTON RUPERT

Head of the Rupert family worth R457million

Heads of four of South Africa's richest families

DONALD GORDON

Head of the Gordon family worth R482.7 million

CLIVE MENELL

Head of the Menell family worth R122.6 million

Thus, a few individuals have effective control over the vast majority of economic activity in the country. **The sixteen wealthiest families in South Africa are worth over R5.6 billion.**

Conglomerates control the financial institutions

Another feature of the conglomerates is their control of financial institutions. South Africa has five major banking groups, each one of which is controlled by a conglomerate. The table below shows the conglomerates and the banks and insurance companies that each controls.

CONGLOMERATE	BANK	INSURANCE
Anglo American	First National Bank	Southern Life
Rembrandt	Absa	Lifegro
SA Mutual	Nedcor	Old Mutual
Sanlam	Bankorp	Sanlam
Liberty	Standard	Liberty Life

This control of financial institutions gives the conglomerates enormous power in terms of the financial resources of the country. They are able to determine how these resources are invested.

Our economy lacks investment in productive assets i.e. investment that leads to the **opening of new factories, the creation of jobs and so on.** The conglomerates are largely to blame for this, because through the financial institutions they have been directing investment to speculative investment (investment in shares and other financial dealings that do not create jobs).

These links to financial institutions are also important for the conglomerates because the relationship between the conglomerate and its subsidiaries is a financial relationship. The conglomerates are able to finance subsidiaries and reinvest profits through the financial institutions.

Conglomerates own overseas companies

These conglomerates have substantial investments internationally. In fact, Anglo American is one of the largest single foreign investors in the United States. These international "arms" have become more significant in recent years, and could easily be used to transfer wealth to counter the threat of nationalisation.

Some of the companies owned by Anglo internationally

In fact, De Beers Diamonds (part of Anglo American) has already transferred a large portion of the assets of the company to Switzerland. In this way, the conglomerates are able to transfer wealth out of South Africa very easily.

Interlocking Directorships

In modern capitalist economies, **directors are a powerful group that exert an enormous amount of influence on the companies that they direct and on the economy as a whole.** The South African economy is no different. In most cases, the directors are themselves shareholders in the companies that they direct.

A feature of the South African economy is the web of interlocking directorships which enforces the control of conglomerates. An interlocking directorship occurs when one person holds a number of directorships in related companies. These individuals are able to exert power in a number of companies and in different sectors of the economy.

A total of 6165 directorships i South Africa are held by just 3456 people (figures adapted from McGregors *Who Owns Whom.* 1990). This means that 3456 people direct the activities of all the listed companies in South Africa. If we were to exclude all the smaller listed companies, the figures would look much worse. The larger companies are directed by a handful of individuals

As an example, Warren Clewlow, the chairman of Barlow Rand is also a director in Romatex, CG Smith, and 14 other companies.

Henri de Villiers, chairman of Standard Bank is a director at Afrox, Allied, Frame, Grinaker, Liberty Life, SAB, Trust Bank, Rembrandt and 26 other big companies.

Clearly, there are a very small number of individuals in South Africa who exert an enormous amount of power in the economic and political environment in South Africa. **The conglomerates use these webs of interlocking directorships to influence and control decision making in companies.** These individuals are in a very powerful position regarding the restructuring of the South African economy.

Dealing with the conglomerates

Clearly, the concentration of economic power in South Africa is unacceptable, with a small minority of the population controlling the vast majority of the country's resources.

The conglomerates control the economic resources in South Africa. This high level of concentration leads to higher prices for basic goods because there is no competition. Also, because they are so powerful, the conglomerates are able to crush any competition and this leads to high levels of inefficiency in the economy.

A future democratic government will have to find ways of restricting the power held by the conglomerates. The Harare Document, a set of policy recommendations suggested by COSATU and the ANC as the basis for a post-apartheid economy, sees the conglomerates as a problem that will have to be tackled.

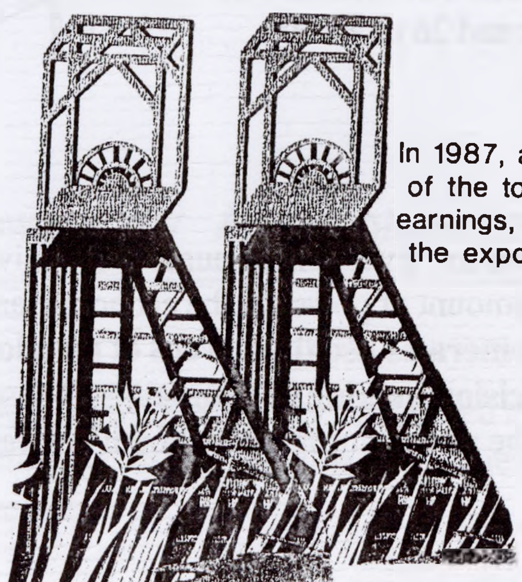
It states that **a new government should promote a more equal and efficient distribution of the country's economic resources**. The document does not spell out what can concretely be done to limit the economic power of the conglomerates.

A number of options are possible in order to control the power of the conglomerates. There has to debate amongst workers, on what the best and most viable option would be. Some of the options that have been identified include :

Nationalisation:

The first option available would be nationalisation of the conglomerates. This will involve **the state taking over the running of these conglomerates**. This could be done with or without compensation to the present shareholders. Obviously, this will be a dangerous option which could lead to a flight of capital and skills from South Africa. We have seen how easy it is for capitalists to move assets to other countries.

The state could also **nationalise certain strategic areas of the economy** and tackle the conglomerates with a variety of other policies. For example, the gold mines are vital to the economy, and these could be nationalised. Another example would be the publishing industry. This vital sector of the economy could be brought under the control of the democratic state.



In 1987, almost 41% of the total export earnings, came from the export of gold

Anti - monopoly law:

The state could use anti-monopoly laws to counter the power of conglomerates. In Britain for example, once a firm acquires 30% of the shares in another company, it is forced to offer to buy all the other shares. This discourages companies from acquiring a controlling interest in other companies. At present, South Africa does have some mechanisms for controlling conglomerates. The Competitions Board was set up to control the concentration of economic power. The government is simply not using these mechanisms.

Representation on the board of directors:

The conglomerates could be forced to have members of the state, workers and unions on their boards of directors. In this way, workers and the state will be in a position to control the power of the conglomerates.

Taxes on dividends:

Presently, there is **no tax on the dividends** (profits that are paid to shareholders) **that companies receive from their subsidiary companies**. This encourages the formation of groups of large conglomerates. The state could levy a tax on the dividends that conglomerates receive. This could be used to finance social expenditure.

Use of the state's consumer power:

Another option would be for the state to use its power as a consumer to influence the economy. Although the state does not participate in production, it is a major consumer of goods. This power could be used to counter the power of the conglomerates. For example, the state can make sure that "bad" conglomerates do not get state contracts.

Using the power of the conglomerates:

Another interesting option would be for the state to use the size and power of the conglomerates to achieve economic goals. For example, the conglomerates in Korea, called chaebols, were important instruments for achieving high rates of economic growth. The chaebols have been given certain protection (for example against imports) in return for implementing the state's development plans. At times, the chaebols have been forced to invest in the interests of the country's growth. This was done against their management's wishes. In this way, the Korean state used the dominance, power and resources of the conglomerates to achieve very high rates of economic growth.

Conclusion

We have seen that the economic wealth of our country is concentrated in the hands of a few large companies and the individuals that control these companies. These conglomerates are in an extremely powerful economic position.

The power of these conglomerates will have to be controlled if a future government is to have restructure the economy in any meaningful way. Without some control on the conglomerates, they would be able to undermine any attempts to change the concentration of economic power in our country.

We have identified a number of options that could be used to "tackle" these conglomerates. Obviously, these and other options need to be debated by workers because workers must play an important role in deciding our economic future.

TRADE UNION RESEARCH PROJECT
DEPARTMENT OF SOCIOLOGY,
UNIVERSITY OF NATAL,
KING GEORGE V AVE, DURBAN
SOUTH AFRICA
☎ (031) 8162438

"MULTICOPY" Durban