NATIONALISATION CASE STUDIES:
LESSONS FOR SOUTH AFRICA

Vivian Atud

3 November 2011
Building a winning nation: Lessons learned from international experiences of nationalisation

Case studies: Overview
Many governments throughout the course of history have sought to increase the role of the state by nationalising targeted productive sectors of their economies with a view to addressing certain political objectives. For example, beginning around the mid 18th century, large advanced economies such as the United States, the United Kingdom and Japan engaged in some form of nationalisation. The sector the aforementioned countries targeted initially was the railways but subsequent attempts at nationalisation in these and other countries at various times involved such sectors as mining and banking.

The proposal by the African National Congress Youth League (ANCYL) to nationalise certain key sectors within the South African economy is based on a motivation to address the inequalities created by the previous dispensation. The idea is that, once key strategic areas are in the hands of the state, the government will be in a position to more adequately address such social inequities.

The African National Congress (ANC) took note of this proposal by its youth division and dispatched a team of researchers to investigate a sample of 12 countries where nationalisation has taken place, namely, Chile, Norway, Sweden, Finland, Zambia, Brazil, Venezuela, Namibia, Botswana, Malaysia, China and Australia. One of the ANC government’s alliance partners, the Congress of South African Trade Unions (COSATU), has also called for the nationalisation of key sectors, and has suggested that, in addition to the 12 aforementioned countries, the ANC should also examine the effects of nationalisation in Korea, Taiwan, Singapore, France and Scandinavia, since these countries “all rose on the basis of strong state ownership of strategic sectors”.

In this paper we analyse the countries selected by the ANC and COSATU to determine whether nationalisation occurred in these countries, and if it did, to what extent. We also examine the sectors that were targeted and what the impact of nationalisation was on these countries’ economies. Finally, we suggest alternatives to nationalisation.

Definitions
Nationalisation is the acquisition and operation by a country of business enterprises formerly owned and operated by private individuals or corporations. State or local authorities have traditionally taken private property for such public purposes as the construction of roads, dams, or public buildings. Known as the right of eminent domain, this process is usually accompanied by the payment of compensation.

A renationalisation occurs when state-owned assets are privatised and later nationalised again, often when a different political party or faction is in power. A renationalisation process may also be called reverse privatisation. Nationalisation has been used to refer either to direct state-ownership and management of an enterprise, or to a government acquiring a large controlling share of a nominally private, publicly listed corporation.

The motives for nationalisation are political as well as economic. Economist, Sheldon Richman differentiates between the different forms of control over businesses as follows: “Where socialism sought totalitarian control of a society’s economic processes through direct state operation of the means of production, fascism sought that control indirectly, through domination of nominally private owners. Where socialism nationalised property explicitly, fascism did so implicitly, by requiring owners to use their property in the “national interest”—that is, as the autocratic authority conceived
A central theme of ‘state socialist’ policies is that the means of production, distribution and exchange, should be owned by the state on behalf of the citizenry to allow for a centrally planned allocation of output, the consolidation of resources, and central planning or control of the economy. The ANCYL has expressed this view in their push for the nationalisation of all strategic industry, starting with the mines. Many socialists believe that public ownership enables people to exercise full democratic control over the means whereby they earn their living. They also believe that it is an effective means of distributing output to the benefit of the public at large, and for providing public finance.

With this in mind, the ANCYL is suggesting that nationalisation can lead to “economic freedom” for all previously disadvantaged South Africans. This view has yet to be tested against empirical evidence, but an analysis of the countries mentioned above can shed some light on the possible impact nationalisation will have, especially for the poor in South Africa.

These calls for nationalisation come at a precarious time in history. Economies throughout the world are suffering from sluggish economic growth. SA has not been immune to the global slowdown, and government needs to carefully weigh any proposals that will adversely affect the productive sectors of society.

Nationalisation can occur with or without compensation to the former owners. Nationalisation without compensation amounts to confiscation and would be in conflict with international law.

In 1962, the United Nations General Assembly adopted Resolution 1803, “Permanent Sovereignty over National Resources”, which states that in the event of nationalisation, the owner “shall be paid appropriate compensation in accordance with international law”. By doing so, the UN rejected both the traditional Calvo-doctrinist view and the Communist view.

Privatisation, the reverse process of nationalisation, has become widespread. The UK and many other countries sold off many of their public companies, such as British Telecom; France sold 65 state-owned companies in 1988.

Table 1: Examples of Nationalisation: By country and period perused?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Period</td>
<td>Countries and Enterprises</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------</td>
<td>---------------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1960s</strong></td>
<td>India (1969) 14 banks Sri Lanka – oil, UK (1960s) busses, water, British petroleum, post office Zambia (1968) coal and some other firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1860-1900</strong></td>
<td>Israel (1905) railways Japan (1906) railways UK (1868) telegraphs, (1875) Suez Canal USA (1862) monetary system, (1863) banking system</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1 lists examples of nationalisation the world over. It is not an exhaustive list but gives us a picture of the scale of government involvement in world economies through different periods in history. Below are various reasons put forward by advocates in favour of nationalisation:

1. When nationalisation takes place, profits are transferred from private hands, where only a few benefit, to the country as a whole, where many more persons benefit.
2. Nationalisation often leads to regional economic development, not just development of the country where the nationalisation takes place.
3. Through nationalisation, private monopolies are prevented if they do not yet exist, or they are broken up if they exist. This protects consumers from restricted quantities and high prices.
4. The aim of nationalised industries is social welfare rather than the maximisation of profits. A wider cross-section of persons benefit when the aim is social welfare.
5. Economies of scale (that is benefits or advantages of large-scale production) result from nationalisation. These advantages lead to lower average costs of production for the industry. Lower costs can be and often are transferred to consumers in the form of lower prices.

6. Nationalisation will result in improved quality and greater efficiency.

7. Increased employment and greater job security are often the result of nationalisation. It will result in improved working conditions.

8. Nationalisation standardises production and therefore, encourages the use of up-to-date technology which increases output.

9. Industries that are failing are revived through nationalisation. Thus, unemployment that would result from the closure of these industries is prevented.

Many of these reasons have been put forward by the ANCYL, especially in relation to the need to equitably distribute incomes/wealth. The following section examines the SA economy and the selected economies to see if there are any economic similarities.

**Some economic factors in the countries selected by ANC for nationalisation study**

The criteria used by the ANC to identify the 12 countries to study and from which to select a nationalisation model is difficult to determine. In the meantime, this section examines the countries selected for research by the ANC and COSATU and compares them with South Africa based on economic variables such as Gross Domestic Product (GDP) growth rate, GDP per capita, unemployment rate, population, inflation rates and the GINI coefficient.

**Table 2: Some economic variables in selected countries 2010**

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (Millions)</th>
<th>CPI</th>
<th>Unemployment rate</th>
<th>GDP/per capita US$</th>
<th>GINI coefficient</th>
<th>GDP Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>50.4</td>
<td>7.1</td>
<td>25.7</td>
<td>5,786</td>
<td>6.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Chile</td>
<td>16.9</td>
<td>3.3</td>
<td>7.4</td>
<td>9,644</td>
<td>5.0</td>
<td>5.3</td>
</tr>
<tr>
<td>Norway</td>
<td>4.9</td>
<td>2.7</td>
<td>2.8</td>
<td>79,089</td>
<td>3.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Sweden</td>
<td>9.1</td>
<td>3.2</td>
<td>6.1</td>
<td>43,654</td>
<td>3.2</td>
<td>5.5</td>
</tr>
<tr>
<td>Finland</td>
<td>5.4</td>
<td>3.7</td>
<td>6.4</td>
<td>44,581</td>
<td>2.6</td>
<td>3.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>190</td>
<td>7.3</td>
<td>6.0</td>
<td>8,230</td>
<td>6.1</td>
<td>7.5</td>
</tr>
<tr>
<td>Namibia</td>
<td>2.1</td>
<td>8.8</td>
<td>52.2</td>
<td>4,267</td>
<td>6.7</td>
<td>4.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>28.3</td>
<td>3.1</td>
<td>3.0</td>
<td>7,030</td>
<td>4.6</td>
<td>7.2</td>
</tr>
<tr>
<td>China</td>
<td>1,300</td>
<td>2.9</td>
<td>4.1</td>
<td>3,744</td>
<td>4.5</td>
<td>10.3</td>
</tr>
<tr>
<td>Australia</td>
<td>22.9</td>
<td>3.6</td>
<td>5.2</td>
<td>42,279</td>
<td>3.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Venezuela</td>
<td>28.3</td>
<td>25.8</td>
<td>8.3</td>
<td>12,600</td>
<td>3.8</td>
<td>-1.9</td>
</tr>
<tr>
<td>Botswana</td>
<td>2.0</td>
<td>7.0</td>
<td>17.5</td>
<td>15,800</td>
<td>5.9</td>
<td>8.6</td>
</tr>
<tr>
<td>Zambia</td>
<td>12.9</td>
<td>8.5</td>
<td>18</td>
<td>1,500</td>
<td>4.8</td>
<td>7.6</td>
</tr>
<tr>
<td>South Korea</td>
<td>48.7</td>
<td>4.3</td>
<td>3.2</td>
<td>20,756</td>
<td>3.1</td>
<td>6.1</td>
</tr>
<tr>
<td>Taiwan</td>
<td>22.9</td>
<td>1.35</td>
<td>5.2</td>
<td>35,300</td>
<td>3.0</td>
<td>8.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>4.9</td>
<td>5.7</td>
<td>2.1</td>
<td>62,100</td>
<td>4.8</td>
<td>14.5</td>
</tr>
<tr>
<td>France</td>
<td>64.6</td>
<td>2.2</td>
<td>9.6</td>
<td>41,051</td>
<td>3.2</td>
<td>1.5</td>
</tr>
<tr>
<td>UK</td>
<td>62.4</td>
<td>5.2</td>
<td>8.1</td>
<td>34,800</td>
<td>3.3</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Source: UN/World Bank Country Stats 2010, Departments of Statistics for the various countries accessed online
To get a clearer picture of these economic variables Figure 1 and 2 are used.

**Figure 1**: GDP/per capita US$

![GDP/Per Capita Chart](source: Chart by Author, stats from country departments of statistics accessed online)

According to Figure 1, South Africa has one of the lowest GDPs per capita when compared to the countries selected for research. Norway, Sweden, Finland, Australia, South Korea, Taiwan, Singapore, France and the UK have a very high GDP per capita. South Africa needs to increase its GDP. The problem of insufficient growth is not a consequence of who owns South Africa’s strategic assets. The nationalisation of already existing mines will add little or nothing to growth and per-capita GDP. To further illustrate the differences between South Africa and the other selected countries: GDP growth rates, CPI, unemployment, and the GINI coefficients of the various countries are listed in Figure 2.
According to Figure 2, South Africa has the highest rate of unemployment and the highest GINI coefficient compared to the countries selected by the ANC. SA’s GDP growth rate is lower than that of most of the selected countries, while its inflation rate is comparable to that of most of them. Figure 2 shows that South Africa needs are economic policies that can increase growth and reduce unemployment. If an analysis of the selected countries cannot support the hypothesis that nationalisation can improve SA’s growth rates or reduce its unemployment, then the pursuit of such policies can only exacerbate the already dire economic situation in the country.

The following section focuses on some of the selected countries. It examines whether nationalisation has actually taken place in these countries and, if it is still practised. It also examines what impact nationalisation had or has on production, employment, economic growth, etc, and what the potential impact of nationalisation will be on the SA economy.
Table 3: Countries with current nationalisation policies, or considering nationalisation

|------------------|--------------------------------|---------------|---------------------------------------------|------------------|---------------------------------------------|

From Table 3, out of the 16 countries that currently have some sort of nationalisation policy and activity or that are talking about nationalisation, some of them are involved in the ‘temporary’ rescue of the banks. The countries whose nationalisations are in the form of bank rescues include: Iceland, the Netherlands, and the UK. However, some economists also consider bank bail outs in the US, especially in mortgage banking, to be a form of nationalisation. None of these countries view nationalisation as anything more than a temporary emergency measure to stop the collapse of their banking industry and all will sell the banks back into private hands when it is possible to do so.

Eight countries are actively nationalising industries, namely, the Channel Islands, Germany, Iceland, Latvia, Argentina, Bolivia, Venezuela, and Zimbabwe. Of these, three are nominal democracies run by de facto autocrats. Argentina has been experiencing very difficult financial circumstances, while Germany and Iceland have been renationalising the Federal Print Office and the railways respectively. There is little nationalisation taking place in the mining industry compared to other sectors such as communication, banking, transportation, and manufacturing in all of these countries. However, in some countries like Namibia, mining is a public-private partnership (PPP). In Malaysia no policies have yet been adopted, they are still only talking about nationalisation. The following section examines the details of some of these existing nationalisation cases to see what lessons can be learned by South Africa.

Individual country experiences

Australia

Year: 1948
Sectors involved: The Australian government attempted to nationalise the banks, but the act was declared unconstitutional by the High Court of Australia in the case of the Bank of New South Wales v. the Commonwealth.

Australia has a market economy with a high GDP per capita and a low rate of poverty. It was ranked third in the Index of Economic Freedom (2011). Australia is the world’s thirteenth largest economy and has the ninth highest per capita GDP; higher than that of the United Kingdom, Germany, France, Canada, Japan, and the United States. It was ranked second in the United Nations 2011 Human Development Index and third in Legatum’s 2011 Prosperity Index.

In 1983, there was a partial deregulation of the financial system. The Howard Government followed with a partial deregulation of the labour market and the further privatisation of state-owned businesses, most notably in the telecommunications industry.

In July 2011, there were 11,450,500 people employed, with an unemployment rate of 5.1 per cent. Youth unemployment (15 to 24 year of age) rose from 8.7 per cent to 9.7 per cent over 2008–2009.
In South Africa, 75 per cent of the unemployed are youths under the age of 24 and addressing youth unemployment is arguably SA’s most pressing social priority.

From the Australian economy South Africa can learn that privatisation and deregulation and improved productivity can lead to more growth and development and not nationalisation. The fact that Australia is ranked amongst the top five countries in the Economic Freedom of the World Index speaks for itself.

**Chile**

**Year:** 1955-1972

**Sectors involved:** The Chilean government led by Salvador Allende nationalised the copper mining industry

**Current status:** Major copper mining assets were nationalised many years ago. It is unlikely that Chile will indulge in further nationalisation. If it did it would pay compensation in line with the pro-business attitudes of all political parties in Chile.

**Mining:** The state still owns the minerals in Chile today as determined by its constitution. Although the state-held mining companies are not very productive, expansion has continued due to private sector operations under the country’s secure mining licence system.

**Impact:** The copper industry flourished again only when private investors moved in. The long-term effect of nationalisation on the Chilean economy was to slow it down although nonetheless it displayed a good performance. (Source: Chamber of Mines)

Chile undertook a seventeen year process of nationalisation between 1955 and 1972¹, merging all previous mining companies into a single state conglomerate called Codelco. One of the two major mining companies in Chile at the time, Anaconda Copper Mines, saw a 66 per cent decline in copper output following nationalisation.²

In 1983, Chile reformed its stagnating mining sector by introducing a new code which restored property rights and private participation. While remaining a state owned enterprise, Codelco began to launch partnerships with private firms. More recently, private mining companies started opening mines elsewhere in the country, and, today, continue to expand and increase production. Codelco’s share of Chilean mining output has fallen dramatically. In 1990, its share of Chilean copper production was 75 per cent, and in 2009, only 32 per cent.

---


Codelco’s output has remained relatively stagnant at 1.6m tons for the last ten years. In an effort to improve its performance the company in April 2010 recruited Diego Hernández, a former manager at BHP Billiton, the world’s biggest mining company, as its chief executive.

Chile came to be heavily dominated by technocrats educated at Chicago University and followed a non-interventionist, and relatively laissez faire set of economic policies. All of this differed widely from the grand ideas of nationalisation, but Codelco remained nationalised because of the link with the military even though the rest of the copper sector was developed by private companies and most of the investment in the sector came from private sources.

Chile thus moved away from the idea of nationalisation even though one of its main industries involved a nationalised organisation. Chile has become a fairly successful middle income country over the years. It is a success story and that success is not due in any way to nationalisation. Its link to nationalisation is merely an anachronistic anomaly.

Chile is unlikely, for instance, to raid its pensions industry for cash under the pretence of an honourable nationalisation to protect the savings of poor folk from a financial crisis caused by wicked foreigners, in the way that Argentina has done.

The overall impact of Chile’s long ago nationalisation was probably to slow down the development of the copper industry, but the larger Chilean economy has done well for other reasons – principally good economic management and sound policy choices. (Source: Chamber of Mines, 2011)

---

3 [http://www.economist.com/node/17311933](http://www.economist.com/node/17311933)
The lesson South Africa can learn from Chile is that if we want fast economic growth to generate revenue and create millions of jobs then following the route of nationalisation will not bring about the required growth.

**France**

Nationalisation in France dates back to the ‘regies’ or state monopolies first organised under the Ancien Régime, for example, the monopoly on tobacco sales. Communications companies, France Telecom and La Poste, are relics of the state postal and telecommunications monopolies.

There was a major expansion of the nationalised sector after World War II. A second wave followed in 1982.

- **1938** Societe Nationale des Chemins de Fer Francais (SNCF) (originally a 51% State holding, increased to 100% in 1982)
- **1945** Several nationalisations in France, including the most important banks and Renault. Renault was seized by the state in retaliation against Louis Renault’s alleged collaboration with Nazi Germany, although this condemnation was made without judgement and after his death, making this case remarkable and rare. A later judgement (1949) revealed that Renault’s plant never collaborated. Renault was unprofitable whilst nationalised but has become profitable again after being privatised in 1996.
- **1946** Charbonnages de France, Electricite de France (EdF), Gaz de France (GdF)
- **1982** A large part of the banking sector and industries of strategic importance to the state, especially in electronics and communications, were nationalised under President François Mitterrand and the PS-led government. Many of those companies were privatised again after 1986.

The Paris regional transport operator, Regie Autonome des Transports Parisiens (RATP), can also be counted as a nationalised industry.

- Although France has been involved in a number of nationalisation policies and activities since 1938, it has subsequently, commencing in 1986, privatised all previously nationalised industries because of their unprofitability and other negative consequences of nationalisation.

The lesson South Africa can learn from the experience of France, is that nationalisation did not bring the intended benefits of good and cheaper services for the population of France and, as a result, the nationalised industries were subsequently privatised.

**South Korea**

In 1946, the government of South Korea nationalised all private railroad companies and set up a department of transportation which they later named Korail. Although the government of South Korea still owns a significant portion of the railroad and subways, other forms of transport such as buses and air and water transport have been privatised. In 1998, the government of South Korea privatised eleven state-owned companies. The country now has a market economy that is ranked fourteenth in the world by nominal GDP and twelfth by purchasing power parity (PPP). It is one of the G-20 major economies, a high-income developed country, and is a member of OECD. South Korea had one of the world’s fastest growing economies from the early 1960s to the late 1990s, and is still one of the fastest growing developed countries in the 2000s. Along with Hong Kong, Singapore, and Taiwan, it is one of the “Asian Tigers”, and is the only developed country so far to be included in the group of Next Eleven countries.
The South Korean economy is heavily dependent on international trade, and in 2010, it was the sixth largest exporter and tenth largest importer in the world. The unemployment rate remained low in 2009 at 3.6 per cent. Its technologically advanced transportation network consisting of high-speed railways, highways, bus routes, ferry services, and air routes have supported its fast growth rates. Its government owns mainly 58% of the railway and subways transport system in partnership with the private sector. All other forms of transport are offered competitively.

South Africa can learn nothing about nationalisation from South Korea. However, a good lesson it can learn is that sustained growth is possible through skills development, technological advances, organisational discipline and a productive culture.

**Sweden**

- **1939-1948** Nationalisation of most of the private railway companies.
- **1957** The mining company LKAB was nationalised. The state had owned 50% of the corporation’s shares, with options to buy the remainder, since 1907
- **1992** A large part of Sweden’s banking sector was nationalised.

Sweden is an export-oriented mixed economy featuring a modern distribution system, excellent internal and external communications, and a skilled labour force. Timber, hydropower and iron ore constitute its resource base and it is heavily oriented toward foreign trade. Sweden’s engineering sector accounts for 50 per cent of output and exports. Telecommunications, the automotive industry and the pharmaceutical industries are also of great importance to the economy of Sweden. Agriculture accounts for 2% of GDP and employment. Income is relatively flatly distributed. Sweden has the lowest Gini coefficient of any country. This is associated with their highly skilled work force and salary structure.

In terms of structure, the Swedish economy is characterised by a large, knowledge-intensive and export-oriented manufacturing sector, an increasing, but comparatively small, business service sector, and by international standards, a large public service sector.

Sweden is a world leader in privatised pensions and pension funding problems are relatively small compared to many other Western European countries.


Sweden’s energy market is largely privatised. The Nordic energy market is one of the first liberalised energy markets in Europe and it is traded in NASDAQ OMX Commodities Europe and Nord Pool Spot. The rail transport market is privatised, but while there are many privately owned enterprises, many operators are still owned by state.

Sweden is one of the most highly developed welfare states in the world. The country has a higher level of social spending to GDP than any other nation. It provides equal as well as comprehensive access to education and health care.

Sweden deregulated its agricultural policies in 1990. Since the 1930s, the agricultural sector had been subject to price controls. In June 1990, the Parliament voted for a new agricultural policy
marking a significant shift away from price controls. As a result, food prices fell somewhat. However, the liberalisations soon became moot because EU agricultural controls supervened.

South Africa can learn several lessons from Sweden. Their culture of productivity and innovation has driven the country’s growth. Unlike Sweden, South Africa’s government has displayed a lot of inefficiency in many of its departments and entities. The South African government must first prove that it is able to provide basic services to the citizens efficiently before it considers expanding government control of productive assets through nationalisation.

**Venezuela**

- **1976 Oil Nationalisation**
- **2007** On May 1, 2007, Venezuela stripped the world’s biggest oil companies of operational control over massive Orinoco Belt crude projects, a controversial component in President Hugo Chavez’s nationalisation drive.
- **2008** On April 3, 2008, President Hugo Chavez ordered the nationalisation of the cement industry.
- **2008** On April 9, 2008, Hugo Chavez ordered the nationalisation of Venezuelan steel mill Sidor, in which Luxembourg-based Ternium currently holds a 60 per cent stake. Sidor employees and the government each hold a 20 per cent stake.
- **2008** On August 19, 2008, Hugo Chavez ordered the take-over of a cement plant owned and operated by Cemex, an international cement producer. While shares of Cemex fell on the New York Stock Exchange, the cement plant comprises only about 5 per cent of the company’s business, and is not expected to adversely affect the company’s ability to produce in other markets. Chavez has been looking to nationalise the concrete and steel industries of his country to meet home building and infrastructure goals.
- **2009** On February 28, 2009, Hugo Chavez ordered the army to take over all rice processing and packaging plants.
- **2010** On January 20, 2010, Hugo Chavez signed an ordinance to nationalise six supermarkets in Venezuela under the system of retail stores of a French company because of price increases and speculations of illicit hoarding.
- **2010** On June 24, 2010, Venezuela announced the intention to nationalise oil drilling rigs belonging to the US company, Helmerich and Payne.
- **2010** On October 25, 2010, Chavez announced that the government was nationalising two US-owned glass-manufacturing plants.

On October 31, 2010, Venezuelan President Hugo Chavez said his government will take over the Sidetur steel manufacturing plant. Sidetur is owned by Vivencia, which had two mineral plants appropriated by the government in 2008.

PDVSA (Petróleos de Venezuela, S.A.), Venezuela’s state-owned petroleum company, oversees the exploration, production, refinement, and export of oil as well as the exploration and production of natural gas. It is the world’s third-largest oil company, behind Saudi Aramco and ExxonMobil. After the nationalisation of Venezuela’s oil in 1976, PDVSA was very much like a “state within a state.” It “insulated itself from the government” and functioned largely as its own entity with control of the nation’s wealth. In 1980, PDVSA acquired CITGO, a US-based refinery, and it is now one of the world’s largest refiners.

Under Chavez, however, the company’s mandate has drastically expanded. In 2002, Chavez redefined PDVSA’s role to include the government’s social priorities. PDVSA must now spend at least 10 per cent of its annual investment budget on social programmes. This money is funnelled
through the National Development Fund, or Fonden, an investment fund set up in 2005 that is not included in the government’s budget.

In the 1990s, Venezuela opened its oil industry to limited private investment and allowed foreign companies to manage specific oil fields. Such “strategic associations” made up roughly 23 per cent of total oil production as of 2006. In April 2006, Chavez announced the government would take a majority stake in such projects, increasing its share from 40 per cent to 60 per cent. Though this partial nationalisation is expected to burden PDVSA with investment costs in the billions, in 2007 Chavez created seven new subsidiaries of PDVSA, including services, agriculture, shipbuilding, construction and industry.

In April 2000, Chavez decreed a new mining law, and regulations were adopted to encourage greater private sector participation in mineral extraction.

Venezuela utilises vast hydropower resources to supply power to the nation’s industries. The national electricity law is designed to provide a legal framework and to encourage competition and new investment in the sector. After a two year delay, the government is proceeding with plans to privatise the various state-owned electricity systems under a different scheme than previously envisioned.

**Consequences:** Economic decline, shortages, slowdown in foreign investment. Short term gains but long term costs.

Venezuela is one of the few active proponents of nationalisation currently. Typical consequences of nationalisation that are being experienced in Venezuela are that staffing levels rise, prices fall, government subsidies are constantly needed, a smaller range of products is produced, output is reduced and scarcities occur.

No mines have been nationalised in Venezuela. The oil industry was nationalised as long ago as 1976, but President Chavez announced its “renationalisation” in 2003 as part of his attempt to exert even greater direct control over the state owned oil producer. Despite record high oil prices, Venezuelan oil production slumped from 3.2 million barrels per day in 1998 to 2.4 million in 2008.

**China**

From the beginning, the People’s Republic of China was a Soviet-style centrally planned economy, without privately owned businesses or capitalism. To propel the country towards a modern, industrialised communist society, Mao Zedong instituted the Great Leap Forward in the early 1960s. This had decidedly mixed economic results. Following Mao’s death in 1976, and the consequent end of the Cultural Revolution, Deng Xiaoping and the new Chinese leadership began to reform the economy and move towards a more market-oriented mixed economy under one-party rule. Collectivisation of agriculture was dismantled and farmlands were privatised to increase productivity. Modern-day China is characterised mainly as having a market economy based on private property ownership, and is a leading example of state capitalism.

Under the post-Mao market reforms, a wide variety of small-scale private enterprises were encouraged and the government relaxed price controls and promoted foreign investment. Foreign trade was focused upon as a major vehicle of growth, leading to the creation of Special Economic Zones (SEZs), first in Shenzhen and then in other Chinese cities. Inefficient state-owned enterprises (SOEs) were restructured by introducing western-style management systems, with unprofitable ones being closed outright, resulting in massive job losses.
Since economic liberalisation began in 1978, the PRC’s investment- and export-led economy has grown ninety times bigger and is the fastest growing major economy in the world. According to the IMF, the PRC’s annual average GDP growth between 2001 and 2010 was 10.5 per cent, the Chinese economy is predicted to grow at an average annual rate of 9.5 per cent between 2011 and 2015. China is the world’s third-largest recipient of inward FDI, attracting US$92.4 billion in 2008 alone, and China increasingly invests abroad, with a total outward FDI of US$52.2 billion in 2008 making it the world’s sixth largest outward investor.

![A graph comparing the 2011 GDPs of major economies, according to IMF data](Image)

The PRC’s success has been primarily due to manufacturing as a low-cost producer. This is attributed to a combination of cheap labour, good infrastructure, relatively high productivity, favourable government policy, and a possibly undervalued exchange rate. The latter has been sometimes blamed for the PRC’s huge trade surplus (US$262.7 billion in 2007). The state still dominates in strategic “pillar” industries (such as energy and heavy industries), but private enterprise (composed of around 30 million private businesses) has expanded enormously.

China now ranks 30th in the 2011-12 Global Competitiveness Report although it is only ranked 135th among the 179 countries measured in the Index of Economic Freedom. Forty six Chinese companies made the list in the 2010 Fortune Global 500 (Beijing alone with 30). Using market capitalisation as a measure, four of the world’s top ten most valuable companies are Chinese. Some of these include first-ranked PetroChina, third-ranked Industrial and Commercial Bank of China (the world’s most valuable bank), fifth-ranked China Mobile (the world’s most valuable telecommunications company) and seventh-ranked China Construction Bank.

The PRC’s rapid growth has of its people out of poverty since 1978. Today, about 10 per cent of the Chinese population live below the poverty line of US$1 per day (down from 64 per cent in 1978), while life expectancy has increased to 73 years. More than 93 per cent of the population is literate, compared to only 20 per cent in 1950 China’s middle-class population (defined as those with an annual income of at least US$17,000) has reached more than 100 million as of 2011, while the number of super-rich individuals worth more than 10 million yuan (US$1.5 million) is estimated to be 825,000. The growth in China’s economy has also resulted in high consumer inflation with the government now trying to regulate especially food prices.

From the Chinese example, it is even more evident that the most important ingredients of its economic success has been privatisation, liberalisation and the implementation of proper management styles in the public sectors with inefficient public corporations sold or closed. It is clear that no large scale economic development ever happened in China during its exclusively planned and state controlled economy.
China’s nationalised plants tend to be run by engineers rather than political ideologues, as is the country itself. This possibly accounts for their greater success than that experienced by ideologically-driven nationalisations in Zambia, Bolivia, etc. Even so, the heyday of nationalisation in China before 1980 did not produce a thriving economy but rather a stagnant one. It was only after Deng forced the country onto a new economic policy path (in essence a free enterprise model with a communist ruling superstructure) that China’s economic growth began to accelerate.

All that South Africa can learn from China is that nationalisation can only take the economy backwards.

**Brazil**

**Sectors involved:** Energy sector amongst others. In areas like energy, Brazil is an example of state ownership rather than nationalisation. Privatisation of CVRD represents a significant retreat of state involvement in mining.

**Current status:** Brazil’s state-owned enterprises have been developed from scratch rather than taken over while already functioning. No nationalisations likely.

**Mining:** Privatisation of very large state mining company, CVDR, in 1997.

**Consequences:** No measurable impact since there is no active nationalisation policy.

Brazil’s active support of the nationalisation idea occurred a long time ago. Indeed, its activities relate more to a highly nationalistic development of resources under public ownership than nationalisation per se. Public ownership, rather than forced nationalisation, has been more popular. Brazil developed certain publicly owned organisations from scratch, for example, Petrobras, an oil and gas major. Brazil has considerable foreign investment in other Latin American countries, and recently, has become a victim of nationalisation through the Bolivian nationalisation of its assets in that country.

The Bolivian nationalisation of energy sources in 2006 seriously affected Brazilian interests and resulted in a nationalistic furore among Brazilians furious at what they felt was their own government’s timid reaction to Bolivian President Evo Morales’ move. Seizure of the assets in Bolivia of Brazil’s state-run Petrobras, which at the time accounted for an extraordinary 18 per cent of Bolivia’s GDP, 24 per cent of its tax revenue, and 46 per cent of its natural gas reserves, provoked an intensely hostile reaction in Brazil. (Chamber of Mines)

Petrobras was created in 1953 as a symbol of Brazil’s economic nationalism. Privatisation of Petrobras in the 1990s was resisted because of this symbolic nationalistic role. That gives an idea of the strength of the feeling of economic nationalism in Brazil. Likewise, when state-owned mining giant CVRD, now Vale, was privatised in 1997, there was strong nationalistic pressure to ensure that it, nonetheless, remained in private Brazilian hands. Vale has flourished since privatisation and is now the world’s second largest mining company by market capitalisation.

Brazil’s economic muscle within South America is such that the Bolivian move could turn out to have been extremely unwise. Brazil’s public anger was also directed internally at the then President Lula Da Silva who, initially at least, took rather a soft line towards Bolivia after the takeover.

Brazil has a large number of cross-border, even multinational interests in South America. Petrobras is heavily involved with petrol stations in Argentina and is active in Ecuador and elsewhere. In addition, large numbers of Brazilians, for example farmers, have, over time, moved into neighbouring countries. This is true particularly of Paraguay and Bolivia. Brazilians are very important as producers of soy in Bolivia. This has attracted Morales’ ire as well and he has
threatened to expropriate land from foreigners (i.e., Brazilians) in a fifty kilometre belt along the border with Brazil.

**Zambia**  
**Sectors involved:** Mining industry, primarily copper  
**Current status:** Zambia initially took 51 per cent of the industry when it nationalised the copper industry forty years ago. At the time, the copper price was high and copper mining was the largest industry in Zambia. Enthusiasm for nationalisation waned as the nationalised industry failed and eventually it was sold back to the private sector.

In 1964, when Zambia gained its independence, its newly appointed leaders wanted to create a better life for all of its citizens. Like the ANCYL, the Zambian government thought that by controlling the copper companies they would be able to achieve their developmental goals by using the revenues derived from mining operations. According to Libby and Woakes, “[Zambia’s] leaders appeared to see the government’s ownership of the copper companies as being a relatively cost free way to develop the country”.

However, when the world price of copper dropped unexpectedly in the mid 1970s, it put the fiscus under immense pressure and Zambia was plunged into debt as the government attempted to sustain the now unprofitable mining operations. The government was forced to make some painful decisions, the cost of which ultimately came at the expense of development in other sectors of the economy.

The reduction in the revenues derived from Zambia’s primary export, which accounted for two-thirds of the country’s income, can be seen in the declining level of income per capita. In 1964, Zambia had a GDP per capita of $554 in constant 2000 prices, making it one of the richest sub-Saharan African countries at the time. More than four decades later, it is ranked amongst the poorest, with a real income per capita of $400, roughly the same amount as the late-1980s (see GDP per capita graph below).

![GDP per capita graph](source_world_bank_world_development_indicators_2010)

Source: World Bank, World Development Indicators, 2010

---

In 1969, when the mines were nationalised, Zambia’s copper production was at its peak, at 720,000 tons. The graph below reveals that copper production declined dramatically thereafter, reaching a low of 241,000 tons in 2000 when the sector was finally privatised. The nationalisation was a tremendous disaster, with production falling by more than 63 per cent in the twenty seven years from nationalisation. After the state-owned company Zambia Consolidated Copper Mines (ZCCM) was privatised in 2000, production immediately began to increase. Average annual growth was 11 per cent over the period 2000-2008. In 2008, Zambia regained the level of copper output it had achieved in 1980 and according to Zambia’s mining minister, Maxwell Mwhale, “In 2010, we are projecting that [production] should get to about 750,000 metric tonnes. That was a figure last achieved in 1973”.

**Zambia Copper Output, 1969-2010**

Zambia’s shrinking proportion of world copper production depicts an even clearer indication of the decline in its copper output after nationalisation. As a percentage of total world production, Zambia’s copper output declined from 12.1 per cent in 1969 to 1.8 per cent in 2000. Thereafter, when the sector was privatised in 2000, its share of world production began to increase steadily up to its present contribution of approximately 4.75 per cent.

**Lessons from Zambia**

The nationalised mines were inadequately managed and undercapitalised and output fell substantially over the period of state control. Government took a majority share in the industry – originally 51 per cent – with the idea of learning from its partners and gradually taking over. Originally compensation was paid.

---

The Zambian case demonstrates the conflicting mix of social- and efficiency- objectives that arises when governments get involved in industry. The Zambian government’s 1969 decision to nationalise the mining companies by taking a 51 per cent ownership, created an unbearable financial obligation that did not exist before. For as long as the world price of copper remained high and the copper industry made profits, the government did not concern itself with the financial burdens of supporting the mining industry. However, when the world price of copper began to decline in the mid-1970s and reached the point where the industry was no longer self-financing and actually had to resort to borrowing merely to operate, the financial burden fell squarely at the feet of the Zambian government. As the majority shareholder, the Zambian government was forced to guarantee loans and inject large sums of money into the companies to keep them afloat.

In the face of the rising costs of production, private companies would have reacted faster and more efficiently. However, the government had made promises to the electorate and had other obligations that did not coincide with good business practices. If it had not assumed majority ownership and imposed restrictions on the mining companies, they would have no doubt responded very differently to the rising costs by, for example, curtailing activities at the marginal mines or even mothballing them until it became profitable to operate them again. Instead, the government continued operations at these marginal mines even though, according to Libby and Woakes, “…mines such as Luanshya…had been losing about 500 [Kwacha] for every ton of copper produced… (and) the Kansanshi mine was losing about 840 [Kwacha] for every ton of finished copper produced”. These two mines were kept in operation largely because of the government’s commitment to guarantee employment to the miners.

As production costs rose, the Zambian government found itself in the impossible position of having to bail out a non-profitable sector again and again. The country sank further and further into debt merely to keep the mining industry in operation and guarantee employment to the miners. Of course the mounting debt came at the expense of investment in other developmental areas.

Zambia’s experience is a very clear example of the dangers that lie in wait for inexperienced and unprepared governments that take over mining resources in a fit of ideological rectitude. It recalls what was said about China, in that the Chinese do at least have experienced engineers to run such undertakings. But even then, nationalised sectors were not successful in China, and particularly before 1980 when the major reforms began. Zambia’s Finance Minister recently noted that the copper industry now pays the Zambian exchequer $1 million per day in taxes. Before privatisation, it cost the exchequer $1 million per day. (Chamber of Mines)

If, instead of nationalising the mines, the government had raised the revenue it needed via the tax system, it would have had the finances to invest in other areas of society. By nationalising the mines, it was forced to divert government finances to the mining industry and had no funding for other purposes.

South Africa, therefore, has an important lesson to learn from Zambia’s experience with nationalisation. Mining is attractive when commodity prices are high but much less so when prices decline. The Zambian government’s nationalisation of the copper mines turned out to be a costly mistake.

---

**Botswana**

**Sectors involved:** Mining – diamonds. State ownership in Botswana is not the result of nationalisation but rather state participation in the development of the industry from the beginning.

**Current status:** No active nationalisation policy and the government is at pains to distance itself from any suggestion that new mining legislation is intended to be a form of nationalisation. Botswana clearly appreciates that to be associated with nationalisation can have negative consequences for a country’s reputation.

**Mining:** The state is the majority shareholder in Debswana and a significant shareholder in De Beers.

**Consequences:** Not nationalisation and very successful.

Botswana has not adopted nationalisation. The main area for consideration is the diamond industry. When diamonds came to be mined in Botswana, the government was involved as a part owner from the beginning which meant that the matter of compensation did not arise.

Botswana is a good example of public/private participation in the mining industry rather than nationalisation in the normally understood meaning of the term (a forced takeover by government of a going private concern). The Botswana government owns 50 per cent of the Botswana mining company Debswana and 15 per cent of De Beers which owns the other 50 per cent of Debswana.

The arrangement appears to have been very successful. It has been remarked that “Botswana seems to squeeze the last dollar of benefit out of the diamond industry”. Some 40 per cent of government revenue comes from the mineral sector. Botswana has built up foreign exchange reserves of more than $7billion. Its constitution prohibits nationalisation of private property. The country has enjoyed very high rates of GDP growth for many years.

The large amount of government spending financed through diamond revenues is unsustainable in Botswana. The economy needs to diversify if it wants to develop and grow.

**Namibia**

**Sectors involved:** Similar to Botswana. Public/private partnership rather than nationalisation. No history of nationalisation.

**Current status:** Recent legislation has raised concerns about possible nationalisation, but these have been denied by government.

**Mining:** Namibia has announced that new mining legislation will be introduced to ensure that exploration for, and mining of, uranium, gold, zinc and coal are carried out with the participation of the public sector. But the President’s spokesman said in May 2011: “It doesn’t mean the state-owned entity will have a controlling stake. It’s not a form of nationalisation.”

**Consequences:** Not nationalisation and successful.

Namibia’s position is very similar to that of Botswana. The Namibian government has been involved with the developing industry since the establishment of Namibia as an independent state in the early 1990s. For many years before independence, there had been a diamond industry in the southern and Namib Desert part of the country. The industry expanded with offshore mining and the Namibian government was directly involved with De Beers from an early stage.
At present, Namibia’s government is involved in part ownership with certain companies. De Beers’ Marine Namibia, a diamond mine, is 70 per cent owned by a private company (De Beers) and 30 per cent owned by Namdeb Diamond which is controlled by the Namibian government.

Recently, proposed new mining legislation in Namibia has provoked claims by the media that the government intends to introduce nationalisation. The proposed new legislation covers the mining of uranium, copper, gold, zinc and coal which have been declared strategic minerals. The rights to mine these minerals would be reserved for a state-owned company, Epengelo Mining.

The Namibian government has, however, been at pains to downplay any idea that this constitutes nationalisation (which is an interesting position compared with (say) the Venezuelan government which unabashedly promotes nationalisation). The Namibian government says that existing mining rights would not be affected.

The new legislation will be presented to parliament later this year.

**Malaysia**

**Sectors involved:** Talk of nationalising road toll companies.

**Current status:** Has not had an active nationalisation policy. There are doubts about whether the possible nationalisation of toll companies because to pay compensation would not be a good way to spend scarce resources in difficult economic times.

**Mining:** Despite considerable natural resources and a policy of empowering indigenous Malays, Malaysia has not used nationalisation as a policy tool.

**Consequences:** The absence of nationalisation most probably has helped the economy to grow fast.

Malaysia is not on record as a significant force in the field of nationalisation. Malaysia is known rather for having an affirmative action policy favouring the Bumiputra (literally the “sons of the soil”, i.e. indigenous Malays) and for becoming a highly successful export-led industrial economy.

Malaysia has not followed the nationalisation route at all, despite possessing industries that might seem appropriate for nationalisation – tin, rubber, and palm oil. Occasional rhetoric concerning nationalisation should not be interpreted as indicative of policy. There has recently been talk of a possible takeover of road toll companies, but Malaysia seems to be hesitating because of the high cost of required compensation.

**Norway**

**Sectors involved:** Oil and gas, and banking.

**Current status:** Norway nationalised banks as part of an emergency rescue package, not because of ideology. State control in the oil and gas sectors goes back to the industries’ beginnings and does not involve nationalisation. Private companies that discovered the oil and gas resources off Norway’s coast are still able to take part in the industry as licensees.

**Consequences:** The results of what were always limited, short-term nationalisation objectives in response to the banking crisis were successful.

As an industrialised Western economy, with a long history of development, Norway could well have become a candidate for the sort of nationalisation that occurred in the 1950s and before but did not do so. There are only two episodes when Norway has been associated with nationalisation but which
cannot be seen precisely as examples of nationalisation. One concerns its oil wealth, the other its banks.

The discovery of North Sea oil was of major consequence to Norway. Its response was to create Statoil, an organisation which was given the responsibility of developing the hydrocarbon sector. Statoil has a remarkable innovative record of corralling carbon dioxide underground. A sovereign wealth fund was created to handle, conserve and protect the proceeds flowing from the industry. The setting up of Statoil did not involve nationalisation, but rather the creation of a state-owned organisation from scratch. The results have been very successful. Norway has not wasted its oil revenues (like, for example, Nigeria) and its citizens are now amongst the wealthiest in the world. This is more a case of an already successful country with a small population receiving a massive bonus which it uses wisely.

The second instance arose in 1992 when certain banks became financially embarrassed and the Norwegian government moved in to save three of them from collapse. This was “rescue nationalisation” like that which has occurred more recently in the UK, the USA, Iceland and the Netherlands. It is considerably different to nationalisation that usually is a takeover by government of a going private concern. (Bolivia and Venezuela, in contrast, do not save lame duck sectors through “rescue nationalisation”, but rather take over successful companies.)

The Problem with state ownership of enterprises
The problems caused by state ownership and government control are generally hidden from view because of an absence of comparative alternatives. Public enterprises tend to be operated as monopolies. Only when public enterprises are privatised, do the deficiencies of state ownership and government management and control become apparent. When the UK started in 1979 to transfer its state enterprises and utilities to the private sector, the success it achieved set off a wave of similar divestment strategies in other countries. The monograph, *Privatisation: A UK Success Story*, provides examples of the difficulties that were being experienced by nationalised industries in the UK:

**Political interference**
After the 1970s oil crisis, the UK government instructed the British Gas Corporation to hold down the domestic price of gas, but “cheap gas undercut coal-fired electricity, adding to problems of excess capacity in the electrical and coal industries. As a result of the artificially stimulated demand, the Gas Corporation had to turn away new industrial business”. When economic realities forced gas prices to return to their market related level, consumers who had made the switch to gas were angry with the politicians who had intended to help them by keeping prices down because they were forced to pay higher prices on their utilities bills.

Political involvement in the functions of state industries at various times leads either to excessively low prices (when the commodity is subsidised), or high prices (when government experiences budget shortfalls), and inevitably to delays in instituting desperately needed investment programmes because governments face a whole variety of other political priorities.

**Higher prices**
“State monopolies, divorced from genuine customer accountability, are inclined to push prices beyond a level which customers would not otherwise accept. Between 1974 and 1979, UK domestic

---


9 *ibid*
electricity prices rose by 2 per cent every six weeks.”\textsuperscript{10} State monopolies are unable, like private industry, to take immediate advantage of opportunities for cost savings.

**Misdirected investment**

“Under state control, the balance sheets of all state corporations become part of the state budget. All major spending has to be approved by government.”\textsuperscript{11} Borrowing by state corporations is generally underwritten by the taxpayers and therefore is subject to government approval. The consequent delays in decision-making caused by having to obtain government approval interfere with the long-term strategic planning and budgeting of large state industries providing crucial services. In the UK, key investment programmes often had to be cancelled at the last moment because government approval was delayed or not forthcoming. A chief executive in one of the privatised UK industries, when commenting on the problem of waiting in line for budgetary funding from government, said, “How does government decide between the purchase of a new destroyer for the navy, the building of a hospital, and desperately needed investment capital for a state industry?”\textsuperscript{12}

**Management without authority**

Managers who are subject to political authority cannot inculcate management disciplines within their organisations. Also, as they do not have management authority, they are not fully responsible for the activities of their state corporations. Some managers are highly capable and reliable, but many hold their posts because of political connections or for some other reason unrelated to their management abilities.

**Demotivated workforce**

With a captive market, as in the UK, state corporations were able to charge customers high prices, yet provide poor service. An example was the telecommunications company, which was months behind in telephone installations, yet, if customers did not pay their bills, telephones were summarily cut off. State corporations are frequently over-staffed; the morale of the workforce is often low with a great deal of absenteeism and staff members showing a total lack of concern regarding the interests of customers.

**Politicised industrial relations**

“Under state ownership, the relations between management and workforce became an issue for high politics. Pay negotiations were conducted not on the basis of what productivity had been achieved, but what the unions thought the government could afford.”\textsuperscript{13} Unions often resort to strike action in order to achieve some political objective and take advantage of periods of political uncertainty to extract the maximum benefit for their workforce.

**Objectives of privatisation**

In the UK, and elsewhere, privatisation of the state industries was carried out in order to:

* Encourage competition

Competition is the only discipline that compels firms to provide competitive goods and services to consumers, keeps prices in check, improves productivity and innovation, and ensures that resources are put to their most productive uses.

\textsuperscript{10} ibid
\textsuperscript{11} ibid
\textsuperscript{12} ibid
\textsuperscript{13} ibid
• **Spread ownership**
State ownership, supposedly, means that industrial or other assets are “held in trust” for a country’s citizens and managed on their behalf for their benefit by the relevant state entity. In practice, as in the UK, citizens get a pretty poor deal. As taxpayers, they, in fact, subsidise inefficiency and, as workers, they are largely ignored and faced with inflationary price increases.

In contrast, when share ownership is extended to private citizens, it has a beneficial effect on the whole economy because the individuals holding shares usually understand that private industry needs to be run profitably in order to sustain growth.

• **Separate ownership from regulation**
As owner of state-owned enterprises, the UK government “was most keen to extract the maximum return from its holding, or to limit the amount of investment it had to fund”. When the state owns enterprises, the government’s role as owner conflicts with its role as regulator. As a result of such conflict, the UK government tended to concentrate on the management of state enterprises at the expense of its primary duty of assuring good governance and equality before the law.

• **Improve access to private capital**
Government oversight over borrowing by state-owned enterprises has a detrimental effect on their ability to plan for the future. Important factors responsible for the improvement in the quality of services delivered by former UK state-owned enterprises was their new-found ability to plan, raise capital in the private capital markets, and execute their plans timeously. When it comes to the complexities of providing capital, government ownership of industries and service providers makes least sense. It is impossible for governments, when dealing with their budget and loan commitments, to arrive at a purely commercial decision on providing capital and guarantees for state-owned enterprises. There are too many non-commercial considerations that impact on such funding decisions. This fatal flaw in government ownership of enterprises is probably the primary reason why privatisation occurs on such a wide scale.

• **Release state assets**
History shows that “the state” has never been good at managing a nation’s assets. To “protect” a large part of the economy from the disciplines of the market, condemns the whole economy to perpetual under-performance. Taxpayers’ resources get tied up in enterprises that have little incentive to improve their efficiency. Often, taxpayers are forced to pick up the tab for losses that result from poor management or market developments for which inadequate preparation has been made.

The massive proceeds received from the sale of privatised UK enterprises enabled the UK Treasury to reduce government debt. This lessened the burden on taxpayers considerably as they no longer were required to subsidise loss-making state-owned enterprises. Taxpayers benefited as well because after privatisation, these enterprises became substantial contributors to total income tax collections. When the demands from state enterprises for capital and subsidies are reduced, government is able to spend more on public services such as hospitals and schools.

• **Utilising new technology**
Political considerations tend to constrain the ability of state-owned enterprises to function efficiently and respond to new developments. Once in the private sector, they are free to make purely

---

14 ibid
commercial decisions regarding the implementation of new technologies and the utilisation of outside expertise.

- **Motivate the workforce**
Most state-owned enterprises are over-staffed and have poorly motivated employees. Attendance records compare poorly with those in the private sector and the incidence of sickness is higher, which are signs of low morale. In the private sector, the corporate culture and more rapid recognition of effort and ability in privatised enterprises is found to boost morale and delivery of customer service.

**Conclusion**
In this study, we have looked at the policies practised in the twelve countries selected for research by the ANC at the urging of the ANCYL and COSATU. After looking at all available data for these countries, our findings reveal that the only success stories are those of public private partnerships like in Botswana, and the case of China which nationalised and then substantially liberalised important parts of its economy, creating Special Economic Zones that represent some of the freest economies in the world.

In most European countries such as France, Sweden, the UK and Norway, the practise of nationalisation has always been followed by privatisation. This has also been the case in countries in other parts of the world such as Zambia.

Another important factor which has to be borne in mind is that all of the selected countries differ significantly from South Africa with regard to economic variables such as Gini coefficient, per capita GDP, GDP growth rates, and unemployment. South Africa has the highest rates of unemployment and Gini coefficient and, compared to most of these countries, also has a low per capita GDP.

From our examination of these few selected countries, it becomes evident that they cannot provide a convincing record of nationalisation successes and, thus, cannot provide a sound framework on which to base this country’s future economic policy. Inevitably, in all of the countries, nationalisation resulted in decreased production, less efficiency, and undercapitalisation of major industries.

To solve our country’s drastic unemployment problem and to grow the economy, the government needs to hand back to this country’s people the means to produce as much as they can, give them the freedom to work wherever and as hard as they can, and allow them every opportunity to profit from their endeavours.