

SAIIA ARCHIVES

CORPORATE OPTIONS IN SOUTH AFRICA

DO NOT REMOVE

Obviously we cannot discuss this rather vague topic except against the background of the campaign against multi-national corporations which is being waged in the world for I assume that what we are actually discussing is what options do the corporations have in relation to their objective situation and to this campaign.

We must first note that one option that they do not have is to meet their critics' demands since these demands are not merely unreasonable but are grossly self inconsistent. Three of the most major inconsistencies in the attacks made on multi-national corporations are the following -

1. The multi-national corporations are accused at the same time and sometimes by the same people on the one hand of exploiting developing countries in the interests of the developed countries and on the other hand of exporting capital and in the process, "exporting jobs" from the developed world to the developing world and of competing with the developed world "using cheap labour". The latter accusation amounts to the accusation that they are in fact developing the underdeveloped country and they are creating there both employment opportunities and opportunities for competitive exporting. While it is not impossible that both accusations may be true of particular situations they cannot both be true as generalisations.

2. Those who demand disinvestment from South Africa set themselves up as the declared enemies of South Africa but do not admit to being the enemies of multi-national corporations. It is fundamental to their position that the operation of the multi-nationals in South

Africa is beneficial to South Africa and that its withdrawal would be harmful. This is grossly inconsistent with the allegation which comes from the same people, and certainly from the same institutions, that the operation of the multi-national corporations is harmful to the countries in which they operate. Indeed, if they really believe this the friends of the developing countries and the enemies of South Africa should be demanding increased investment in South Africa and disinvestment from the rest of the developing world. The operation of the multi-national corporations may, of course, have both advantages and drawbacks but it simply cannot be on balance both advantageous and harmful to the countries where it operates.

3. The third inconsistency, that in relation to countries other than South Africa the multi-nationals are accused of interfering in local politics and manipulating affairs so as to impose policies which are the policies of the developed countries on their host countries. In South Africa they are bitterly accused of not doing this.

Quite clearly the multi-nationals cannot win and are not meant to be able to win. The campaign against them is part of the "struggle for socialism" and is intended to bring about the destruction of a particular capitalist institution while other capitalist institutions are destroyed by other means. I would also suggest that one of the reasons for the intensity of the attacks on the multi-nationals is that socialists are embarrassed by the success of the development and improvement of living

standards in developing countries brought about by the operation of the multi-nationals. One of the accusations, which is in part true, is that the multi-nationals export capital and know-how to the developing countries and thereby put them in a position to compete with the developed countries. Whether in doing so they actually harm the developed countries is very doubtful since whatever they earn they must spend and the more they export the more they necessarily import. They can, however, undoubtedly cause harm to particular interests and industries which are unwilling or unable to adapt to changing circumstances. If one assumes that the world owes a living to the British textile worker and owes no living to the people of Hong Kong then those who have exported textile spinning know-how to Hong Kong have done wrong. What is still more embarrassing to socialists is that government controlled development aid has been conspicuously less effective than the operation of free enterprise channelled through the multi-national corporations.

It is most important in considering their options that multi-national corporations should recognize that they are dealing with enemies who are bent on their destruction for ulterior motives. This does not mean that they can ignore the attacks made on them. These enemies are part of the environment in which they function and have to be dealt with, but nothing could be more dangerous than to try to meet criticism at its face value for this is precisely what the enemy strategy is and the criticism will be constantly and steadily altered so as to drive the

corporations into a situation where they cannot survive.

Following from this let us first of all get it perfectly clear that corporate options do not include operating in such a way so as not to make a profit. The private enterprise system is based on profit and competition. The effect of competition is greatly to circumscribe the options which an individual company has if it is to make a profit. It is not normally open to a company to pay significantly higher wages than are dictated by the labour market because if it does it will be undercut by competitors who pay lower wages. Let it be noted also that it is not open to a company in a competitive market to discriminate arbitrarily in its employment practices so as not to make use of the most suitable labour available, and for this reason, however prejudiced individual employers may be the operation of a free market system will steadily and fairly rapidly destroy discriminatory practices unless they are enforced by law either directly, as in the case of job reservation, or indirectly by discriminatory education and training policies which put some people in a genuinely better position than others. Even this, however, will not ensure that the better trained are employed and the worst trained are unemployed. In the absence of other interventions imposing arbitrary wage levels the better trained will be paid more and the worst trained will be paid less but in the process of being employed the worst trained are likely to close the skill gap, learning on the job. The point I am making is that it is not an option open to corporations whether

a multi-national or not to take advantage of the freer labour situation which has come about in South Africa. There is an absolute imperative on them to do so and they would be forced to do so by competition in the absence of any political motives whether of South African or overseas origin.

There is some room for manoeuvre in relation to the trade-off between capital and labour. By employing more capital and less labour a company can afford to pay higher wages. By paying lower wages a company can afford to employ more people and use less capital. Of course this does not always work. There are some places where only one mix of capital and labour is possible and some where there is so much advantage in using capital when its replacement by labour is out of the question and of course there are some where the reverse is true as for example in school teaching. Nevertheless it is very seldom true that the two mixes are equally profitable and the pressure from competition on business is to optimise. Major shifts can be manipulated by the government by such means as making capital artificially cheap or labour artificially dear. These will of course avenge themselves in the long run through capital shortage and structural unemployment but for a time they can work. But there is very little room for manoeuvre for the individual firm in a competitive environment.

Much of the discussion of this issue is based on the unexpressed assumption that multi-nationals exercise monopoly power, and it is then demanded that they should exercise this power in one or other particular way. Actually, monopoly power is very rare and it is

exceptionally unlikely to be exercised by multi-nationals because the root of nearly all monopolies is a government franchise of some kind. The international market is a truly free market because there is no authority which can control it and therefore monopolies in the international field are extraordinarily difficult to achieve. A multi-national company may of course have a monopoly in a particular national market if it has been given a monopolistic franchise by the government but in that case if it wishes to keep the franchise it will have to play the government's game, whatever that may be. In any case I know of no example of this in South Africa.

Monopolies are a great deal more rare than is normally assumed because competition does not stop at the boundaries of a particular product. Coco-Cola for example is alleged to be a unique product and if this is true the Coco-Cola company has a monopoly of the production of Coco-Cola, but this confers on them precious little power, for Coco-Cola is, to varying extents, in competition with every other beverage from whisky to tap water. The Lion Match Company in South Africa has a monopoly of the production of matches but it is in fierce competition with cigarette lighters which are just as good as matches for virtually every purpose, not only lighting cigarettes - and so it goes on; tea competes with coffee, whisky with brandy; diamonds compete with every other kind of gem, with gold, silver and platinum and in the last resort with every consumer luxury from motor cars to furs. Only in a case of a product vital to human life and irreplaceable like salt is a fully effective monopoly possible.

Of all the multi-nationals the ones who most seem to exercise, not a monopoly, but an oligopoly are the oil companies, but the history of recent events makes it quite clear how little power they ever exercised. If they had wished to raise the price of oil they would have had to restrict production and this power they never had. As usual it required government action to produce monopolistic behaviour. Indeed, the main accusation against the oil companies which emerged from the oil crisis was that they insisted on behaving in a responsible manner and declined to co-operate with the "beggar my neighbour" policies attempted by various national governments.

What it amounts to is this - primarily and overwhelmingly the most important business of business is business. It is by pursuing their businesses and seeking to optimise the use of other factors of production that companies, whether multi-nationals or not, supply the consumer wants and create employment opportunities in fact, bring about economic development. Any substantial deviation from the direct endeavour to optimise the use of the factors of production will significantly reduce the amount of economic development produced. If such steps are taken unilaterally by particular companies the result will be that they will be overtaken by competitors. If they are taken by conspiracy among all the producers they will reduce the rate of economic development and will also probably, in due course, lead to cheating and to successful competition from outsiders. Conspiracies are difficult enough to maintain if they are in the interests of the conspirators.

One trembles to think what is likely to happen to a conspiracy which is against their interests.

At the centre then there are really only two corporate options - to carry on or to give up - to do business or not to do business - to be or not to be - and as regards the latter alternative let us rid our minds of the absurd concept of withdrawal of investment which is so often bandied about. An investment once made consists mainly in fixed assets and goodwill, that is the difference in value between a going concern and its assets value separately. These cannot be withdrawn; they can only be sold for what they will fetch or in the last resort abandoned. Indeed, the programme of the "withdrawal of investments" school appears to be a curious form of enforced nationalisation where the assets of the multi-nationals are to be handed over free to the South Africans, yet the same people urge other developing countries to nationalise the multi-nationals by force. We come back to the extraordinary situation that apparently what is medicine to other developing is poison to South Africa. The only question is whether these doctors are in fact trying to poison South Africa with penicillin or to heal the other developing countries with arsenic.

As I have already mentioned, to take the fullest advantage of reduction of enforced discrimination and to take all available measures to bring about further reductions is not an option it is an imperative.

The options, therefore, are strictly peripheral. Companies can, and indeed should, avoid utterances and actions which appear to be irresponsible or to imply indifference to the public welfare. They can and should spend modest sums drawn from their profits on social welfare and similar projects, and indeed, if this is done with care and skill and areas are sought out where great leverage is available the total effect achieved can be considerable but it can never be anything near the effect of the efficient pursuit of profitable business. They can and must, as business always does, take on protective colour in relation to the changed atmosphere of opinion so just as in the past when racism was at its height in South Africa, business and especially international business, pretended to a greater degree of compliance than it practised; now it may find it expedient to indulge in window-dressing which pretends to faster progress in Black advancement than is really possible but this has nothing to do with the real need that such advancement should go as fast as possible in order to overcome the deadly stranglehold of artificially produced shortages of skilled labour.

Of all the Marxist fallacies propagated against business as a whole none is more absurd than the idea that business fears the advancement of unskilled workers or, in South Africa, specifically of the Blacks because it is concerned to keep unskilled labour cheap. It hardly requires a moment's thought to see that in any situation where unskilled workers are in the majority the

advancement of any one individual from the unskilled to the skilled ranks will have a greater effect in holding down skilled wages than in raising unskilled wages which is why historically capitalism has been the great solvent of the hereditary castes of feudalism.

To sum up then, fundamentally, the only options which companies have are either to give up or to do business to the best of their ability according to business principles, seeking to optimise the efficiency of the use of their resources. In doing this they do far more for the benefit of the countries where they operate than they can do in any other way. At the same time, as always, they have to adapt their style, their image building and their public utterances to the atmosphere and circumstances of the time. They have always done this, but as times change so the response to them has to change as well.

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