



South Africa: Taking Stock of Divestment

THE NEED FOR ACTION ●

Black people in South Africa live under apartheid, a tightly meshed system of total dispossession that deprives them of their citizenship, freedom of movement, land ownership, organizing rights and education. This system is official policy and exists to maintain the black population as a vast reservoir of powerless, cheap labor to be used when and where the government and corporations decide.

For more than forty years, U.S. corporations and banks have been investing in South Africa, not merely aware of the repressive system, but clearly defending it. In exchange for the enormous profits on cheap black labor, U.S. corporations and banks have helped provide the capital and technology for the nuclear, military, police and prison systems needed by the white minority to maintain control of the black majority. Continuing U.S. corporate support for apartheid is evidenced by the tripling of corporate investments in South Africa over the past two decades, making the U.S. the largest foreign investor next to Britain. U.S. banks have also bolstered the apartheid economy with more than \$2.2 billion in recent loans.¹

The uprisings in the sprawling black township of Soweto in 1976, the death in detention of black consciousness leader, Stephen Biko, in 1977, and numerous reported banings and arrests are a telling sign that apartheid not only continues in South Africa but is becoming even more

repressive. It is time to end U.S. support for the apartheid system by withdrawing corporate investments and ending bank loans² that are so crucial to its survival.

WHY DIVESTMENT ●

After years of claiming neutrality or defending apartheid, U.S. firms have only recently begun to claim that their investments in South Africa are vital to the prospect of reforming apartheid. But a close look at the corporate reformist strategy demonstrates that it is aimed at pacifying critics of South Africa in the U.S. The most progressive reforms imaginable cannot change apartheid which is based on the bantustan system of land distribution. Thirteen per cent of the land is all that blacks are allocated and, until this is altered, blacks will be slaves in their own country. Corporate reforms do not even address this problem nor the problem of political disenfranchisement.

Only a strategy which considers the need for fundamental redistribution of wealth and power will suffice. Among the strategies tried by anti-apartheid groups in the U.S. have been shareholder resolutions and divestment.

Shareholder resolutions work within the arena of corporate shareholder meetings. Occasionally the resolutions have called for corporations to withdraw from South Africa. More often they call for the gathering of information about operations in South Africa. They have been a way of raising the issue among stockholders. However,

over the years they have had limited success and when it is clear that corporations will continue their South African investments, stronger action is needed. The President of Brandeis University, Marvin Bernstein, whose administration recently sold its stock in Ford and GM as a result of a divestment campaign, illustrates the point: "Last year a shareholder resolution got 2.7% of the vote at GM's annual meeting. This year, despite the increased focus on college campuses regarding divestment, the same resolution at GM's meeting got only 1.8% of the vote. That's when we decided to sell our stock in GM."³

It is the clear lack of corporate response to ending support for apartheid that makes divestment necessary. Divestment means the sale of stocks and bonds from U.S. corporations and banks⁴ operating in South Africa. Divestment represents a clear message to corporations from shareholders that their continued profits from apartheid are morally repugnant. Douglas Fraser, President of the United Auto Workers, addressed the moral issue involved when he recently said, "We in the UAW don't believe that the hard-earned dues money of our 1.5 million members should wind up being used directly or indirectly to aid a country (South Africa) that practices such racist, repressive and undemocratic policies."⁵

CAN DIVESTMENT WORK? ●

Divestment from companies involved in South Africa is not likely to affect the market price of the stocks in the short term since most U.S. firms have a relatively small percentage of their overall investments and assets in South Africa. However, if enough organizations and individuals divest from these corporations in a campaign with considerable publicity, a "climate of resistance" can be created around the issue of South Africa. Corporations are extremely sensitive to bad publicity and are fearful that such a climate will extend to questioning all of their practices. Continued negative publicity can, in fact, make companies unattractive investments. For example, the stock of J.P. Stevens is undervalued today, reflecting the long battle and bad publicity generated by the confrontation between the firm and organized labor over Stevens' labor practices.

Corporations must increasingly count the costs of remaining in South Africa when faced with the possible loss of investors, loss of future markets for their goods and a decline in stock value. The days when investment returns in South Africa were double that of domestic returns are gone. This dramatic drop in investment returns reflects, among other factors, the increasing political turmoil within South Africa.

Of course, divestment alone will not bring an end to apartheid. Some opposed to divestment see it as a "one shot" strategy which then leaves the institution helpless to work for change. But the strength of divestment is in the expanding campaign made possible by the efforts of individual institutions.

Freedom in South Africa will ultimately be won by those South Africans struggling for liberation, and divestment can contribute to that struggle by posing a threat to continued U.S. investments and support for the white minority government. The threatened loss of U.S. dollars is far more serious to the South African government than any so-called U.S. corporate influence while continuing to operate in the country. U.S. Senator Paul Tsongas of

Massachusetts, commenting on a strategy for ending apartheid, recently said; "Divestiture represents the quickest and least violent path to the eradication of apartheid. Without pressure the South African government will remain committed to apartheid as they have for the past thirty years."⁶

The South African government has already reacted by endorsing studies which are aimed at determining the status and impact of the divestment campaign. One such study, done by Meyer Feldberg, a South African consultant to American and South African companies concluded; "When an issue such as South Africa becomes significant among several hundred students at a great university, the policy (makers) and decision-makers in the university, in government and in business take note."⁷

SOME ARGUMENTS AGAINST DIVESTMENT CONSIDERED ●

A successful campaign for divestment necessitates a refutation of those arguments used most often against divestment, such as the following:

1) **Portfolio responsibility would be violated if financial managers are called upon to divest:** Those responsible for investment portfolios are generally bound to invest in the most productive and profitable ways possible. Often referring to the original "prudent man" ruling by a Massachusetts judge more than 150 years ago, many investment managers are concerned that if they divested from corporations doing business in South Africa, they would lose money since many of these corporations are the largest American companies.⁸

This concern is based on the assumption that stock in these large U.S. multinationals is essential to a prudent portfolio. There is strong evidence to the contrary. A recent study which appeared in the *Journal of Portfolio Management* concluded that: "the effect on portfolio risk of excluding the companies operating in South Africa, the 150 to 200 major U.S. companies, is, contrary to intuition, not particularly important."⁹ A study done a year ago by Salomon Brothers, a well known Wall Street firm, on the investment returns of the Standard & Poor's composite index (which includes the majority of firms operating in South Africa) indicated an average return of just 2.8% over the last decade.¹⁰ Consequently, Dr. Robert Schwartz, Vice-President of Shearson, Hayden, Stone, Inc., a New York investment firm, suggests that a portfolio, in some cases, "might even be improved by divestment."¹¹

While it is too early to fully assess whether it has meant a loss or gain to those institutions having already divested, it is clear that there are substantial alternatives. At the University of Wisconsin, which recently divested, Joe Holt, Secretary of the Board of Regents, explained that "there were a lot of stocks left to invest in, to replace those we sold."¹²

Beyond portfolio obligations on financial risk, many institutions also have principles written into their founding charters or legislation which include a provision that the institution's behavior should be consistent with the Constitution and laws of the United States. Corporations operating in South Africa violate many of the major tenets of American law, including equal rights under the

The following is a list of some institutions and organizations in the U.S. that have adopted a policy to divest from corporations and banks doing business in South Africa:

Total Divestment

Antioch College
Hampshire College
Michigan State University
Ohio University
Stanford University Chapter, YWCA
University of Massachusetts
University of Oregon
University of Wisconsin
Sisters of Notre Dame de Namur, Connecticut
District Council 1199, National Union of Hospitals
& Health Care Employees
Retail, Wholesale and Department Workers Union

Partial Divestment*

Amherst College
Boston University
Brandeis University
Columbia University
State University of New York, Oneonta
Smith College
Tufts University
University of Michigan
Vassar College
Yale University

Alternative Investment Resources

These organizations can be contacted regarding alternative investments for portfolios which have been divested of stocks and bonds of firms operating in South Africa:

California Alternative Investment Task Force
1932 Fourth Avenue
Sacramento, California 95818
Telephone: 916-442-3838

Community Economics Associates
6529 Telegraph Avenue
Oakland, California 94609
Telephone: 415-653-6555

California Public Policy Center
304 South Broadway, Room 224
Los Angeles, California 90013
Telephone: 213-628-8888

Community Investment Fund
120 Boylston Street
Boston, Massachusetts 02116
Telephone: 617-542-1060

Strategic Investments Advisers
1320 Campus Drive
Berkeley, California 94709
Telephone: 415-548-1320

Wisconsin Center for Public Policy
1605 Monroe Street
Madison, Wisconsin 53711
Telephone: 608-257-4414

law, voting rights and equal protection under the law. For institutions to hold stock in these corporations under such circumstances can have possible legal consequences. For example, in February 1978, the University of Wisconsin totally divested \$11 million worth of stock in U.S. corporations operating in South Africa on the basis of a legal opinion from the State Attorney General that holding such stock violated a 1973 state law prohibiting investment in corporations that practice or condone racism.

2) The costs involved in divesting making it a prohibitive risk: The costs most frequently cited by those opposing divestment are the transaction fees charged by the portfolio management to divest and also the possible loss of donors to an institution. Both the Massy Report from Stanford and the Eckland Report from Yale emphasized the high brokerage fees involved in their recommendations against divestment. This argument appears to be more rationalization than fact. Portfolio managers turn over stock regularly, perhaps an average of 15% annually. Estimated at between .27% and .6%, these fees are of little consequence when managers buy or sell stocks and bonds. The change of a percentage point in the price of a stock swamps these transaction costs. Commenting on the costs involved in the recent \$7.5 million divestment at Michigan State University, Nancy Elliot, Director of Investments and Trusts, said that "the fees involved were not significant enough to be of concern.

Many of the stocks probably would have been sold anyway."¹³ Most institutions calculate general transaction costs into their estimate of expenses for the year, meaning that only any additional costs over what the institution would normally spend is a realistic figure for costs.

Institutions, particularly colleges and universities, and some religious institutions, also cite the possible loss of donations to the institution by individuals and corporations upon divesting. This argument is difficult to assess and raises questions about the interconnections between these institutions and the corporate world, suggesting economic black mail and interlocking directorates at the very least. Such an argument also challenges those such as the President of Harvard University, Derek Bok, who maintain that universities must be politically neutral.¹⁴ Many institutions who depend upon donations have long taken moral stands not limited by the corporate ethics of the day.

3) We feel we can be more effective by working within the system in South Africa by encouraging U.S. corporations to sign the Sullivan Principles and to institute reforms in the workplace: This claim assumes that what U.S. corporations can do for the 70,000 blacks they employ is more important than the repression of the 22 million blacks they do not employ, whose repression their very presence helps to maintain. While petty

reforms in the workplace may mean improvements in the lives of a few blacks, the vast majority only know the U.S. computers and police vehicles used to enforce apartheid.

The Sullivan Principles have been endorsed by more than 100 U.S. companies and call for measures such as non-segregation of work and eating facilities and equal pay for equal work.

Rather than contributing to genuine change in South Africa, the Sullivan principles are a public relations success that helps to secure U.S. corporate presence in a basically unchanged system. The Sullivan Principles are dangerous because they give the impression that South Africa can be reformed by U.S. corporations. In fact, U.S. corporations have neither the will nor the power to bring about fundamental change. They support the South African government and are allied with it against the struggle for freedom of the majority of South Africans.¹⁵

THE BENEFITS OF DIVESTMENT ●

Much of the time divestment campaigns are put on the defensive by the many counter-arguments and rarely is there serious consideration of the benefits of divesting stocks and bonds from corporations and banks operating in South Africa.

First, divestment of the portfolio can end an institution's direct support for U.S. funding of apartheid. Secondly, although much of what is loaned to South Africa is in the form of Eurodollars, the extension of loans to South Africa lessens funds available in the U.S. for mortgages, home improvement loans, low-interest student loans, small business loans, community improvements and the like. Money can only be spent in one place and there are better things to invest in than apartheid. An example is the practice of redlining, whereby banks draw a line around poorer neighborhoods and virtually cut off funds to these communities which they perceive as high risks.¹⁶ While the inner cities decay, the apartheid government of South Africa has enjoyed almost unlimited credit. The divestment strategy not only calls for an end to the financing of apartheid, but also for a return of such deposits to communities at home.

U.S. corporations with operations in South Africa continue to profit from cheap black labor there while plants at home are being closed. Paying blacks near starvation wages in South Africa means increased unemployment in the United States. This is not to suggest an end to all multinational operations, but that American workers cannot compete with the wages of apartheid labor.

Perhaps the most significant benefit of divestment is the contribution it can make in the ongoing struggle for liberation in South Africa. In response to increasing international pressure, Prime Minister P.W. Botha has declared that South Africa has adopted a "total war strategy."¹⁷ Part of this strategy is the National Supplies Procurement Act which authorizes the South African government to order any U.S. company to supply the government with goods determined to be necessary for national security. General Motors, for example, has already been designated a key industry which would undoubtedly be seized in the event of "civil unrest."¹⁸ While divestment cannot prevent blood-

shed in the struggle for liberation in South Africa, it can make a significant contribution to this struggle, by eliminating much of the fuel that feeds the violent fires of apartheid. □

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● FOOTNOTES ●

- 1 Extensive information on U.S. investments in South Africa is available from the American Committee on Africa/Africa Fund.
- 2 For further information on bank loans to South Africa, contact the Campaign to Oppose Bank Loans to South Africa, 198 Broadway, N.Y., N.Y. 10038, telephone: 212-962-1210
- 3 "The Divestiture Issue Hangs on for Colleges", *The Boston Globe* June 24, 1979.
- 4 To divest from a bank would be the sale of stocks or bonds held in a bank as a corporation. Personal and institutional accounts held in banks can be withdrawn, which is the strategy of the Campaign to Oppose Bank Loans to South Africa.
- 5 UAW Press Release, March 3, 1978
- 6 "The Divestiture Issue Hangs on for Colleges", *The Boston Globe* June 24, 1979
- 7 Feldberg, Meyer. *American Universities: Divestment of Stock in U.S. Corporations with South African Affiliates*, University of Cape Town, 1978
- 8 Charles Pillsbury, a pension lawyer in New Haven, Connecticut told us that no Federal, State, or local "prudent person" statute would be violated by divesting stock from corporations operating in South Africa.
- 9 Rudd, Andrew. "Divestment of South African equities: How risky?", *Journal of Portfolio Management*, Spring 1979, p.9
- 10 "Growth by Stocks Trailed Other Investments During the Past 10 Years According to Study", *Wall Street Journal*, July 6, 1978
- 11 Telephone interview, August 24, 1979
- 12 Telephone interview, August 24, 1979
- 13 Telephone interview, August 24, 1979
- 14 In response to the divestment campaign, President Bok issued a series of letters to the campus community, maintaining that institutions of higher learning are, and should continue to be, outside the political arena.
- 15 For further information on the Sullivan Principles see, "The Sullivan Principles: A Critical Look at the U.S. Corporate Code of Conduct in South Africa", Africa Fund, 1979.
- 16 For further information on redlining, contact the NY Committee to Oppose Bank Loans to South Africa, 313 W. 78th Street, 4R, N.Y., N.Y. 10024, telephone: 212-865-8972 or the National Training and Information Center, 1123 W. Washington Boulevard, Chicago, Illinois, 60607, telephone: 312-243-3035.
- 17 "Wiehahn-Exposing the Contradictions", National Union of South African Students, 1979, p.5
- 18 See "General Motors in South Africa: Secret Contingency Plans in the Event of Civil Unrest", Africa Fund, 1978