

Nationalization case essay sample

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Nationalization can be defined as the process of taking an industry or assets into government ownership by a national government or state.

Nationalization usually refers to private assets being transferred to the public sector to be operated and owned by the state. In this essay I will be discussing nationalization in regards to the mines of South Africa and will be forming an opposing argument. Nationalization of assets is usually common in communist countries where the government controls and regulates the amounts and quality of produce. In South Africa we have a mix-economy but predominantly a capitalist nation free-market economy which is open to foreign investors and privately owned businesses. The effect on our economy:

Economic Theory

Our government would like the mines to be in their control and the idea seems appealing to them because they feel it should belong to “ the people” and running it would mean that they would have more control over the mining of the gold and other minerals which could increase their revenue but more likely not, which will be discussed further point by point. The mines are a very integral part of our economy, particularly gold is essential to South Africa’s survival, brings in a lot of revenue when exported, and is vital to its survival. When South Africa exports its gold it makes a lot of money which it then brings into the country and may use this money for importing goods that we do not have in South Africa. Things we do not have here need to be imported. Our exports are one of our most important functions as we have a valuable mineral we can exchange on the international market. We also need to export in order to make money and some of those exports include gold

and diamonds. At the moment the country benefits from the gold because they (the government) get massive taxes from the mining companies which equal revenue for South Africa/government. Privately owned companies are all taxed and have to pay this to our government, many of these companies are run by foreigners including the mines.

Nationalizing these mines would mean that the government would be taking these mines away from these private investors in order to be run by local government in hope that they have the same knowledge and required skill to operate such an intricate system in order to generate the same or expected/possible profits. In regards to government running such businesses they are known not to be very efficient because running a mine is extremely complicated using advanced technology and you would have to have superb managers, top class people to run and control of all the lower employees and activities. Running a mine requires very efficient management and there are safety requirements to follow. The income will suffer if it is not run effectively. The same revenue will be lost and there will not be enough money for the government to spend on schools, housing, and hospitals. If it is run effectively there will not be a problem. The reason government looked at it because it sounds like the mines must belong to "the people" as a lot of the mines are run by Anglo-American and are getting richer/more wealthy and people don't like this. If it was run as efficiently as it is now then there wouldn't be a problem but chances are slim. Analysis

Government's in third world countries are notoriously bad at running mines and there is a much a higher chance of corruption. Eg. Zambia nationalised

all of the key sectors of its economy in the 1970s, including the mining sector. However, a series of unfortunate events and wrong decisions on the part of the Zambian Government ensured the subsequent failure of the nationalisation programme. Nationalisation of the mining sector in Zambia precipitating a decline in foreign investment and thus foreign exchange reserves. Regarded as blue chip shares, pension funds have invested heavily in blue chips shares. Pension's funds have invested million/billions in this and if the mines were nationalised and run inefficiently those shares will collapse and drop drastically in price and all pensions will be negatively affected, as you can see the mines affects every aspect of our economy. Our mines bring in or attract a lot of foreign investors and a lot of these people have connections in the government and benefit enormously, nationalising the mines may discourage foreign investors from investing in our mines and in our country because it sends a message that they could nationalise things at any time and investors do not like to invest in an unstable economy.

If foreign companies stop opening up their businesses here and stop doing as much business with South Africa they will not be spending as much money in the country which will lead to further unemployment. A lot of these big corporate businesses are overseas/international companies that hire South African workers. South Africa cannot afford more people living off the state; the employment rate is currently at 4.5 million which has risen 0.6 million since 2008, one of the highest in the world. Furthermore, foreign companies also won't want to invest in our mining if they feel that it is not doing as well as it should or as well as it was doing because they may believe that they won't make money in doing so. If the mines stop generating income our

whole economy will drop and foreigners will not put money in economy that is not stable. Many of the pension funds have invested in gold mining and diamond mining shares which are regarded as blue chip shares. In the event that nationalisation took place of these mines and if the share price drops suddenly there would be a calamitous loss of value in the pension fund which would mean that pensioners would find that their pensions has been adversely reduced. Conclusion

In conclusion we can see that nationalization of the mines will not serve to solve any of South Africa's problems, we rely on it far too much and are in great need of the mines being run effectively because of how much money it brings into the country. If nationalized It may result in economic decline due to low foreign investment and the country will suffer. The smooth running of the mines is essential for South Africa's economy's survival.

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