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Empowerment versus (re)distribution in South Africa: the political economy of assets in elite transitions

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ABSTRACT
Political transitions often involve elite negotiations that include an economic dimension. One key element involves asset transfers to new elites. These dynamics inform the trajectory of the wealth distribution within the broader society. This paper compares two examples in South Africa of asset transfers in elite transitions. To assess the processes through which these asset transfers shaped the overall distribution in the economy. In doing so, the paper highlights the importance of the structure of the transfer, the distribution mechanisms, and the wider economic policy framework in determining the role of elite transitions on wealth inequality.

RÉSUMÉ
Les transitions politiques impliquent souvent des négociations entre élites qui comportent une dimension économique. L'un des éléments principaux est le transfert des biens aux nouvelles élites. Ces dynamiques influencent la trajectoire de la distribution des richesses au sein de la société dans son ensemble. Cet article compare deux exemples sud-africains de transferts des biens dans le cadre de transitions des élites, afin d'évaluer les processus par lesquels ces transferts des biens ont déterminé la distribution globale dans l'économie. Ce faisant, il souligne l'importance de la structure du transfert, des mécanismes de distribution et du cadre plus large de la politique économique pour déterminer le rôle des transitions des élites sur l'inégalité des richesses.

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Introduction

South Africa has one of the most unequal asset distributions in the world. In 2018, it was estimated that the top decile owned approximately 85 per cent of household wealth, and their share of ownership has not declined in the 24 years since the democratic transition (Chatterjee, Czajka, and Gethin 2022). This concentration and consistency implies that wealth is dominated by elite group(s), groups with disproportionate control over resources (Khan 2012). In seeking to understand these dynamics, there are two core

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approaches we could deploy. Using an elite lens to examine wealth concentration would allow us to employ a set of analytical tools to explore and understand the nature and persistence of the asset holdings of elites. Conversely, using a wealth inequality lens to understand elites may also give us access to granular details about the economic matters of elites. Combining these two motives at moments of political transitions, provides one of the few windows where asset configuration can be addressed to provide political and economic legitimacy and a stake for both incumbent and new elites in the new society.

A number of elite theorists and political economists have focused on distributive trajectories determined by political settlements during transitions (for example, Albertus and Menaldo 2014; Higley and Burton 2006). These studies have highlighted the importance of deal-making for elites to continue in the new democratic regime. Analysing these alliances can provide insights into why inequality persists despite political mandates to reduce it. A key part of deal-making is economic ownership, in which economic power is granted to the new political elite.

Key scholars have scrutinized South Africa's post-1994 transition (for example, Padayachee and Van Niekerk 2019) to understand how this has impacted the country's progress in the democratic era. Despite a mandate to address inequality, wealth inequality has not declined (Chatterjee, Czajka, and Gethin 2022). Black Economic Empowerment (BEE), a key initiative for wealth (re)distribution, involved transferring assets of listed companies to a new elite. Some commentators have viewed this as continuing inequality-enhancing practices (Bond 2000; Cawe, Sachs, and Valodia 2022); others have seen it as a growth barrier (Hausmann 2008).

BEE is sometimes compared to affirmative action policies elsewhere, despite different social and institutional contexts (Emsley and Mahadea 1996; Lee 2015; Lee 2022). South Africa offers a useful analytical precedent, having experienced two transitions within 50 years, both of which involved asset transfers between elites with different distributionary outcomes. This paper examines and contrasts these two key periods of elite transition and the mechanisms leading to different outcomes – first, the transition between English capital elites and the Afrikaner establishment, culminating in apartheid's institutionalization in 1948. This included a specific economic programme that involved mining asset transfers (Afrikaner Economic Empowerment, AEE); second the political settlement of 1994 between white and Black elites, which laid the ground for political enfranchisement of the Black[1] population. This transition included the BEE asset transfer programme. We focus on the first wave of BEE, which emphasized Black participation in ownership structures of the economy. We use South Africa's transition to demonstrate the need for a wider political economy lens, as well as granular details into important factors in providing information about the mechanisms of elite transitions.

Our analysis presents four key axes that have historically created the conditions for an elite transition and asset transfers to result in more egalitarian outcomes: balance of power; financial models and forms of ownership; pre-distribution mechanisms; and the broader economic framework within which the transfer was done. As we will articulate in our conclusion, an uneven balance of power enabled the first transition to encompass very different control over assets and accumulation processes, one which drove empowerment and a wider distributionary gain. The balance of power in the second transition led to 'redistribution' without the conditions, design or economic environment to entail empowerment. There is a crucial fifth factor: the sociological processes that drove the ethno-nationalism of Afrikaner empowerment.[2] A comparison and analysis of these processes, however, are beyond the scope of this paper.

Theoretical framework

Although unique in its extreme concentration, South Africa's wealth distribution is similar to many countries in which wealth is largely concentrated through financial holdings, including direct and indirect holdings of shares in listed companies. Company ownership is relevant to understanding inequality in terms of: (a) who benefits (top income distribution is driven by capital incomes, including dividends from share ownership) (b) control and incentives governing company decisions, as shareholder primacy has influenced firm structure and strategies, such as distribution of surplus between workers, management and owners and labour market structure, such as labour flexibilization. Studying the multidimensional processes underpinning company ownership may offer a deeper understanding of wealth inequality and wider political economy of inequality.

The theoretical framings linking empowerment programmes to wealth and inequality are informed by elite theory and policy literature on empowerment programmes. Elite theory has been useful in understanding inequality persistence through relationships between elite formations and institutions (Acemoglu and Robinson 2006; Acemoglu, Johnson, and Robinson 2001; Albertus and Menaldo 2014; Higley and Burton 2006). Focusing on political transitions, this literature analyses infrequent windows when it has been possible for institutions to be redesigned and reset, and how these have varied, leading to different inequality levels. These approaches assert that elite configurations during transitions greatly impact economic (and political) outcomes.

These multi-country and macro-level settlement theories focus on political power – even if they factor in economic outcomes – and put at their centre the balance of power *over the state* in determining future outcomes. The macro-level settlement studies above use redistributive spending as a proxy indicator to judge the egalitarian nature of South Africa. More globally, these studies also collate instances of transitions, which are viewed as equivalent and comparable in terms of their assessment.

However, elite power balance during transition is necessary but insufficient to understanding future economic outcomes. Studies of South Africa's transition note the importance of changing global economic and political order in contextualizing and shaping the transition (Feinstein 2005; Freund 2013b). issues that don't feature sufficiently in these studies. A critical analysis of how elite power balance impacts specific processes, such as AEE and BEE transactions, and the broader political economy governing wealth redistribution is required.

The aforementioned studies also take the state as the analytical site of inequality reducing or enhancing distributionary processes. The firm, however, is a key site of distribution of value between owners, managers and workers. Arguably, the shift in the role and model of the firm (the 'meso' level) has been fundamental to the shift in the economic paradigm (the 'macro' level), and this has been crucial in the distribution of the wealth of the country. And while the impact of elites on policy (through lobbying) or accessing powerful positions in firms through networks have been studied, the interlinkages between firm structure and elite accumulation is less well understood.

In corporate governance and corporate political economy frameworks, the change from a managerial model to shareholder primacy has been used to explain high or rising inequality (Brou et al. 2021). Research has shown inequality enhancing results of the shareholder regime (Bapuji et al. 2018; Lazonick 2014). The importance of institutional investors has only recently been studied (Braun 2022; Christophers 2023) – their role in shaping the distribution occurs at various points and adds a stakeholder to the distribution of value: policy holders. Literature on the role of financial institutions in contemporary development may be limited. We fill this gap through an original analysis of data and literature on the historical role of financial institutions in colonial expansion (Attard 2013; Keneley and Verhoef 2015).

In many settler colonies, mutual organizations have shared risks and profits of colonial expansion among the agrarian and industrial white working class. We highlight the distributive effects of a change in model of SANLAM – originally, the Suid-Afrikaanse Nasionale Lewens Assuransie Maatskappij – a key player in asset transfer in *both* transitions, which demutualized at the time of the second transition. Demutualization of insurance companies has been a focus in corporate governance literature,[3] yet its role in inequality outcomes has not been studied. SANLAM's role in empowerment gives demutualization unique relevance at the intersection of elite processes of political transition, affirmative action economic empowerment plans and inequality.

The international policy literature on economic empowerment analyses policies aiming for 'the improvement of the excluded majority's living conditions and livelihoods' (Friedmann 1992, 12), targeting groups disadvantaged prior to intervention. Most programmes and literature range from education to improving women's access to higher-income jobs and roles in supply chains, including improved working conditions. In South Africa, literature on BEE focuses on management and governance (Dreyer, Viviers, and Mans-Kemp 2021; Esser and Dekker 2008); impact on growth (Acemoglu, Gelb, and Robinson 2007); impact on sectors (industrial and sectors in terms of size (large, SME, micro)) (Janssens et al. 2006; Kruger, DuToit, and Ponte 2006; Sanchez 2006; Vilakazi and Ponte 2022); employment (Horwitz and Jain 2011); firm performance (Akinsomi et al. 2016; Krüger 2011); profile of ownership and board (Ntim and Soobaroyen 2013; Sartorius and Botha 2008; Wachira 2020); state business relations (including procurement) (Bowman 2019; Freund 2006; Ponte, Roberts, and Van Sittert 2007; Reddy and Rampersad 2013; Tangri and Southall 2008); foreign direct investment (Mebratie and Bedi 2013); BEE's ability to overcome barriers or structurally reform the economy (Vilakazi and Bosiu 2021); and evaluations of policy design or efficacy (Patel and Graham 2012). Only Vilakazi and Bosiu (2021) consider BEE's shortcomings in its stated objective of transforming the South African economy in terms of inclusiveness. None of these studies link factors at the macro, firm or transaction levels to provide a holistic evaluation of how BEE's design undermined its objective.

Of interest to this paper are the studies that have shown that BEE has resulted in a formation of a new layer in the elite that is Black. These studies assert that involvement in the transformation has been predicated on political connections and a buy-in to new economic rules that maintain the structure of the economy and the status quo of incumbent elites. This has curtailed the power or desire for broader transformation (or through the lens of elites, resulted in elite circulation) (Freund 2007; Tangri and Southall 2008).

These studies do not tie granular detail into wider processes to understand their impacts on elite formation or wealth distribution.

A few studies have compared recent Black Economic Empowerment to Afrikaner Economic Empowerment (Masito 2010; Schlenther 2010; Xaba 2020). These have taken case study approaches to reveal dynamics within sectors or companies, highlighting a comparison of 'bottom up' empowerment, as demonstrated by Afrikaner Economic Empowerment, with a 'top down' approach in Black Economic Empowerment, resulting in inequality-enhancing outcomes. The politics of empowerment regimes' design provides vital evidence reinforcing the 'elite bias' argument.[4] In discussing the economic paradigm underpinning the two empowerment programmes, the focus has been on the state's role in supporting inclusive development. How the economic regime impacted the nature of firms and deals in empowerment, and their distributionary outcomes is yet to be addressed.

We therefore use a theoretical framework that calls on different theories to answer the gap in research. Elite theory is used to identify elites, and in the context of a political transition, to analyse the balance of power. Corporate governance, particularly in comparing the distributive returns based on company structure, is used to analyse the firm's role in the distribution of asset wealth.

Methodological framework

In this paper, we compare two empowerment programmes in South Africa at different times. This allows us to hold geography, mineral resource endowments and broad social factors constant, while allowing important temporal elements to vary. We can thus identify changes in economic environments and structures at the macro and firm levels, understanding asset transfer in the larger context. We focus on one type and one element of empowerment deals – asset transfer – and follow it through mechanisms that determine distributionary outcomes. For AEE, we focus on gold mines, and for BEE, three cases in mining, industrial and finance sectors.

Our comparative framework analyses these along four axes:

(1) Balance of power between transferor and transferee;
(2) Financial model and forms of ownership;
(3) Pre-distribution mechanisms; and
(4) Broader economic framework within which this transfer was done.

The first axis, balance of power, enquires whether the transfer of assets reflects a change in power. Whether the transferee becomes a decision-maker over the resources or flow deriving from the asset may affect decisions that companies take about pay, redistribution and political decision-making. The second axis – specific forms of asset ownership transfers – aims to understand how assets were held and how transfers were funded. Financing mechanism can determine the control over the flows of the asset, again affecting the distributive impact, while also reflecting the balance of power. The third axis discusses what the mechanism for sharing gains through the firm, prior to state involvement in tax and redistribution, and how they differed. Finally, the broader economic framework provides the boundaries of what is achievable through asset transfer.

AEE targeted a minority population, while BEE addressed a majority population. However, focusing on asset transfers aids this comparison since the target population directly benefiting from asset returns isn't vastly different. AEE would benefit the white working population, which is estimated at 1.3–1.6 million people (Simkins 1976). During BEE, owners, including workers' pension funds and union investment funds, would benefit – a narrow share of the black population. In 2000,[5] only about 27 per cent of the employed were in the formal sector, of whom 58 per cent were Black. Trade union membership if Black and formal sector employed included 1.7 million, while those contributing to a pension fund encompassed 2.3 million. Considering that not all pension funds and trade union investment arms were in BEE deals, the target beneficiaries tied directly to asset ownership were certainly less than 2 million. Indirect benefit (through tax and redistribution supporting grants) was on a different scale, though we argue the mechanisms to do this were removed in the case of BEE.

In this paper, we use primary archival and secondary sources of data, including existing literature, to extract information that we analyse according to our framework. We identify the elites from secondary historical literature on the key political and economic contexts of the transition.

Background

Afrikaner Economic Empowerment (AEE)

In the early twentieth century, two dominant groups emerged: the Afrikaner elite and the Anglo elite.[6] The Afrikaner group consisted of white settlers whose primary language was Afrikaans. They were associated with the first wave of settler colonialism, originating from the Dutch Vereenigde Oost-Indische Compagnie (VOC) colony of the Cape and spreading to Southern Africa's interior. They mainly engaged in rural livelihoods, namely stock or subsistence farming (Giliomee 2003; Sadie 2002). The Anglo group emerged from a later influx of Europeans following the discovery of gold and diamonds. They brought economic ties to the British imperial circuit, dominating large-scale mining operations, financial houses, banks and trading. By 1910, they had 'dominated the economy, bureaucracy and the professions' (Giliomee 2008, 766). In contrast, Afrikaners entered the twentieth century in economic precarity, as pressures in the agricultural sector drove their urbanization. They found themselves under-skilled compared to the 'English speaking' population and the existing non-white proletariat, who had more experience, were paid less and, where they were permitted to do so, had attained education.[7] This became known as 'the poor white problem'.

The Afrikaner community also had an affluent layer with strong ethno-nationalist commitments. This elite began as a small Cape-based network with family, religious and business ties, expanding to a national network of an Afrikaner business class with links to a larger network of affluent and poor Afrikaners alike (Verhoef 2008). This elite would set into motion the processes of Afrikaner empowerment the 'cultural and nationalistic awakening of the Afrikaner people' (Verhoef 2016, 61) – through several mechanisms. The first was through the newspapers De National Pers and De Burger;

the next was to intervene in the economic mechanisms that led to strengthened industrial presence (such as in the emerging industrialization in manufacturing and commerce) and support for agriculture and strategically crucial finance. The final aspect was through exerting political influence – first through public sector employment (Steenekamp 1990; contra Giliomee 2008), second through supporting and influencing the Pact government. The Pact government supported industrial policy but also enshrined discriminatory laws between 1924 and 1939 in favour of whites and largely to the benefit of Afrikaners, given their relative position, and eventually through coming to power through the National Party in 1948.

Until 1939, though the position of Afrikaners had greatly improved, it had not yet reached its main period of advancement. This was set into play by the People's Economic Conference of 1939 in which, across economic, political and civic spheres the Afrikaner elite strategized about how to coordinate and adapt the capitalist system to advance the Afrikaners' economic position. This elite included heads of SANLAM, who motivated for a model of venture capital to finance Afrikaner involvement in business and industry that went beyond retail stores. To do this, a finance house was established to keep profit maximization as its driving force, but also to empower Afrikaners in trade and industry. This entity was called Federale Volksbeleggings (FVB), controlled by SANLAM, the fourth largest life assurer in South Africa in the 1930s (Verhoef 2008).

Prior to Afrikaner Economic Empowerment, the Afrikaner elite largely dominated in agriculture and cash trading but had little involvement in the mining and highveld industrial economy. While the cultural element of Afrikaner empowerment had been strongly developed, the gap in economic empowerment was glaring. Political pressure had enabled some welfare gains. However, within a decade, the Afrikaner share of the non-agricultural private sector economy jumped from 5 to 11 per cent (driven by commerce), and in the next two decades, doubled to one-fifth of the non-agricultural industry (Table 1) (Sadie 2002). A 'developmental' state, created for the white population prior to World War II, continued during Apartheid. Policies included industrial support, exclusionary hiring, wage inflation and subsidized wealth accumulation. Afrikaner Economic Empowerment was an elite transition which had at its core a premise of spreading the benefits of economic participation to other members of the community. This framing is crucial, but it should be foregrounded that this happened within a larger economic

Table 1. Share of private sector income by Afrikaner-controlled enterprises.

	1938/1939	1948/1949	1954/1955	1964	1975
Agriculture		85%	84%	83%	82%
Mining	1%	1%	1%	10%	18%
Manufacturing and Construction	3%	6%	6%	10%	15%
Commerce	8%	25%	26%	24%	16%
Transportation		9%	14%	15%	15%
Liquor and Catering		20%	30%	30%	35%
Professions		16%	20%	27%	38%
Finance	5%	6%	10%	21%	25%
Miscellaneous		27%	35%	36%	45%
Aggregate(Mining, Manuf, Finance, Commerce)	5%	11%			
Aggregate		24.8%	25.4%	26.9%	27.5%
Aggregate excl. Agriculture		9.6%	13.4%	18.0%	20.8%

Source: Sadie (2002, 28). Stellenbosch University has granted permission for the use of this table. Copyright in the original work rests with Stellenbosch University.

model of exploitation of Black South Africa, through land appropriation, value appropriation via suppressed wages and deliberate exclusion of Africans from any accumulation process. Afrikaner empowerment entailed Black disempowerment.

Black Economic Empowerment (BEE)

From the mid-1970s, South Africa's economy faced severe crises. Rising costs, falling investment and the dissolution of the Bretton Woods system led to balance-of-payments and debt crises in 1985 (Feinstein 2005). With international embargoes and political unrest, these economic factors drove an urgent need for a change in political regime for the white business. Representatives of Anglo and Afrikaner business were central to conversations with the apartheid government and ANC representatives, starting with a delegation led by Anglo American's chairman, eventually moving to the Consultative Business Movement, which had incorporated over 100 businesses by 1989 (Makgetla and Shapiro 2016). A senior Anglo-American Corporation of South Africa Limited (Anglo-American) employee reflected:

> … leading businesses invested heavily in influencing the transition because they believed it was necessary for their short, medium and long term interests … [and] helped shape thinking of some elites (including senior National Party leaders) about the need for a negotiated future and an economy that was geared to the changing world environment. (Spicer 2016)

The ultimate negotiators for the white elite were those with political and military power (National Party and Intelligence Services leaders), but white business's cohesive economic power was key to shaping the transition's politics and economics (Michie and Padayachee 2019).

Central to the pre-apartheid and apartheid eras was the oppression of Black people. Land appropriation, restricted movement, a labour regime creating unemployment and suppressed wages and deliberate under-development in education, housing and welfare left immense challenges for BEE to address. For elite transition, this meant a missing Black capitalist class and capital (Tangri and Southall 2008), and a lack of management, technical and administrative professional class to negotiate with. The transition was thus between a white political and economic elite, and a Black political elite – with economic participation terms set by the white elite.

Analysis

Balance of power

AEE

As noted earlier, the goal of Afrikaner Economic Empowerment was for Afrikaners to become meaningful stakeholders in the South African economy. The gold premium had already been in the target of the National Party, who would form the apartheid government, when in 1938 they called for this to be the source of redistribution (Yudelman 1983 in Giliomee 2003). As seen in Table 1, prior to 1954/1955, Afrikaner enterprises controlled no more than 1 per cent of mining. In 1963, a SANLAM subsidiary, Fedmyn, entered gold mining through purchase of Anglo-American entity General Mining and Finance Corporation, which owned valuable but underperforming gold mines, securing control in 1965. Further purchases meant Afrikaner ownership of mining jumped to 10 per cent, and by 1975 to 18 per cent.

The sale of Genmin by Anglo-American to SANLAM has been debated: some academics and Anglo-American business leaders have stated that all share deals were done in strictly commercial terms with no state interference (Giliomee 2008; Verhoef 1995) – as in, it should be considered no differently to any other trade – and others have asserted that the trade was done at a discount (O'Meara 1983).

For this paper, the key question is: was this asset transfer part of a negotiation allowing for the transition of an established elite into a new elite regime? For the answer to be yes, neither a state directive nor a discount would have been necessary – we simply need to assess whether the deal would have happened without the imperatives of elite transition.

All sources indicate that a major motivation for the deal from the Anglo side was to protect the Anglo-American diamond monopoly. Part of the agreement was that Fedmyn would not enter the diamond mining sector, thus colluding to preserve the De Beers' diamond monopoly. The threat to this monopoly came both from the commercial sphere, through Fedmyn's ambitions in the diamond industry, and the political sphere. Previously, Oppenheimer's political influence and alliance with the pre-Pact government resulted in the Precious Stones Act, which regulated production and, hence, diamond prices (Hammond, Cooper, and van Staden 2017; Pallister, Stewart, and Lepper 1987). Oppenheimer was Member of Parliament for Kimberley. However, after 1948, with the National Party now in power, he entered the opposition, and his influence over legislation was not only blocked (the Diamond Act was amended in 1960 to allow for the mining of diamonds, opening up competition in diamond industry), but all signals pointed to Anglo-American's position being targeted:[8] 'The Nationalist government and its Afrikaner propagandists had long raged against the "Hoggenheimer" control over South Africa's mineral resources, and in 1964 had gone so far as to set up a Commission of Inquiry [the Hoek Commission] into Anglo's affairs' (Innes 1984, 158). In no sense did the Anglo elite participate – or even have the option to participate – in the empowerment strategizing or economic planning of the People's Economic Conference or the Apartheid government. The balance of power had shifted considerably to the Afrikaner elite. By joining economic interests with SANLAM through Fedmyn, Anglo-American also secured a political alliance, given that SANLAM was central to the Afrikaner empowerment project. Verhoef called this collusion a form of alliance building. With this asset transfer, the Anglo elite accumulation was secured, and the Afrikaner elite had achieved its target to enter the gold accumulation pathway.[9]

BEE

The balance of power was in many respects much more in favour of the incumbent elite than in the previous transition, even though they had no extrinsic political power in parliament. There was heavy involvement in the policy setting by the white elite, as demonstrated by the regular meetings on economic policy held between select members of the ANC leadership and representatives of Anglo-American, SANLAM and other mining–finance houses (Freund 2013a; Michie and Padayachee 2019). This ANC's rejection of a 'developmental' state plan (which, as discussed later, was crucial to the earlier case of empowerment) in favour of the Growth, Employment and Redistribution Plan

(GEAR), aligned with the incumbent elite, a plan which Ponte, Roberts, and Van Sittert (2007) note as similar to the plan produced by the South African Foundation, representing South Africa's fifty largest companies.[10]

Further, since apartheid had prevented any accumulation of capital by the African population, there were no capitalists or those with sufficient experience with whom to negotiate the transfer of assets – both representatives of Anglo-American and SANLAM mention that their challenge was to find suitable partners, and that they could partner only with political Black elites (Giliomee 2008; Spicer 2016; Verhoef 1995). Randall (1996) categorizes these figures as activist capitalists, educated exiles, corporate sophisticates, agents of change and conference circuit champions who had 'soft' positions and were used for their political capital.

In the mining deals, the incumbent elite directed lead Black partners to find and coordinate other potential Black beneficiaries, thus working to meet the incumbent elites' objectives, rather working for their own group interests (Kilambo 2021). Economic power lay solely with the white elite – and to construct a counterparty, a group of political influential individuals were created as the 'Black elite'.

In this economic environment, the first wave of BEE was not official government policy, but engaged with by organizations such as National Federation of African Chamber of Commerce (NAFCOC) who proposed specific targets on equity ownership, managerial representation and procurement to be achieved by the year 2000. This was proposed as a clear asset transfer programme. The white elites' motivation to engage in asset transfers was part of the strategy to avert nationalization programmes that had been part of earlier ANC political manifestos, and prioritize their needs over supporting potentially new Black economic elites. This entailed rejecting a development state and pursuing a neoliberal agenda (described below). BEE provided legitimacy and buy-in within the new democratic regime, without acceding to any significant structural reforms (Michie and Padayachee 2019).

Among the first such asset transfers was SANLAM's sale in 1993 of 10 per cent of its life insurance business, Metropolitan Life (Metlife), to a consortium of Black participants (BEE Commission 2001). Similar to the asset transfer of AEE, Verhoef (2003) describes the transfer not as a gift but as alliance building. This asset transfer was one of several components of the process of elite transition. Equally important was the deal between Anglo-American and De Beers, with the National Empowerment Consortium, which involved unions as well as politically connected investors. The mining sector held key economic and symbolic value, and we focus on Anglo-American engagement with BEE as a case study.

Financial model of the deal

AEE

To finance the asset deal, Fedmyn paid for the shares in equity. The financial structure of the deal is challenging to understand without the original contractual information. We rely therefore on secondary reporting on these deals. As per Verhoef: 'Fedmyn exchanged a basket of 5 million Trans-Natal shares, 1 814 000 deferred Trans-Natal shares and a total of 363 700 shares in different other gold mines, for a 50 per cent shareholding in MB' (Verhoef 1995, 103).

As per corporate finance literature, companies favour equity financing – rather than cash or debt financing – to overcome information asymmetry about the value of the target. This is also typical of 'glamour acquirers' – those that have a high market rating for recent performance and expected future performance (Martin 1996; Sudarsanam and Mahate 2003). In essence, the nature of this deal would allow Fedmyn to share the risk with Anglo-American that it had overpaid on the gold mines, keeping cashflow free (unlike with cash financing) or without incurring regular interest payments out (as with debt financing). In this structure, any profits or losses would (after tax) be distributed to the shareholders of MB, which ultimately encompassed SANLAM. SANLAM was able to invest using equity financing due to incomes received from policyholders, which, pooled together, formed the investment reserve.

BEE

To finance the deals, the new Black elite had to use financing instruments that employed some mix of third party funding, special purpose vehicles, debt financing, preference share instruments and equity participation (Nhasengo 2016). This is because the challenge facing BEE deals was the lack of capital available to fund the asset exchange (unlike in the AEE, in which Fedmyn had the equity available). We focus on three case studies in important sectors to show that the mechanisms to distribute wealth served to concentrate wealth rather than share wealth. The case studies are in finance (Metlife), industrial (Johnic) and mining (various).

The Metlife deal initially aimed to echo the Genmin deal in its structure, using an investment holding company, Methold, to own the actual asset. Metholds purchase of 10 per cent of Sankorp's shares in Metlife cost R137 million (R2 per share) and was financed by the Industrial Development Corporation (IDC), a state-owned national development finance institution set up to promote economic growth and industrial development. Shares in Methold were then offered to a Black public to share in the gains. However, very limited interest in the offering resulted in a re-design (Verhoef 2003), such that Methold, now renamed New Africa Investments Limited (NAIL), became owned through a pyramid of holdings structures that concentrated ownership into the few Africans that had access to capital, predominantly Dr. NH Motlana (see Figure 1) through Corporate Africa. The additional 20 per cent in Metlife was acquired through a loan that was funded by the issuance of preference shares to Sankorp, who agreed not to exercise their right of redemption/conversion until the fifth year, and agreed that any conversion by Sankorp would not increase its total ordinary shareholding in NAIL above 30 per cent.

In addition, it was agreed that any conversion by other preference shareholders would not dilute Sankorp's total ordinary shareholding in NAIL below 20 per cent. If not redeemed at the end of five years, the preference shares would automatically convert into ordinary shares. Part of the payment to Sankorp was then financed through NAIL, which raised the cash needed to pay Sankorp by issuing Corporate Africa with additional shares. Returns from the original asset, Metlife, would thus pay an ever-larger web of dividend and loan payments, concentrating wealth rather than distributing it.

The next BEE deal highlighted here focuses on the industrial sector. In 1995, Anglo-American Corporation of South Africa Limited and De Beers Consolidated Mines Limited announced that one of its subsidiaries, Johannesburg Consolidated Investment

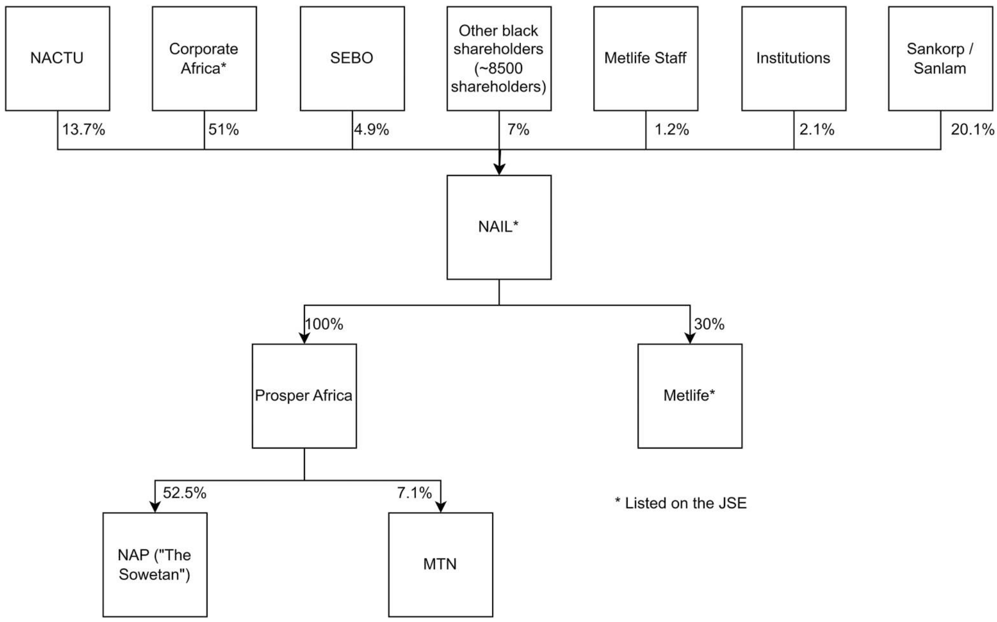

Figure 1. Group structure of NAIL and Metlife. Source: Reproduced from Thackwray (1998, 37–38). The University of Witwatersrand has granted permission for the use of this figure. The copyright in the original work rests with the University of Witwatersrand.

Company Limited (JCI), would be split, and one of those companies, 'Johnnic', was transferred to the National Empowerment Consortium, another group of Black investors. Johnnic included significant shareholdings, such as South African Breweries (SAB), Toyota SA Limited and property companies.

Black elite participation in this transfer was through the National Empowerment Consortium. This included investment companies and eight labour unions from mining, construction, textile manufacturing, transport and food/catering sectors. The NEC purchased 35 per cent of the issued share capital of Johnnic in 1996, at a cash consideration of R50 per share. Six per cent of Johnnic's share capital had been offered to smaller NEC members through a retail offering.

Payment for the transfer of these assets for all NEC members was through loans from a variety of institutions, including SANLAM, but also through three of the major banks, as well as the SOE pension funds (Thackwray 1998). There seemed to be a marked emphasis on wider distribution through sharing returns on equity with the workers through unions, financed through pension funds. In contrast to the equity finance used for the Goldmin deal, these deals were cash financed (through loan financing or finance from pension funds), putting the risk of overpaying for the assets squarely on the acquirer (Martin 1996). Indeed, the potential gains were tempered by interest payments to be made to the lenders. In 1999, this would undermine the entire empowerment initiative as the Asian Financial Crisis reduced the value of the equity and returns available to meet the mounting debt obligations.

Other key issues were also involved in the devaluation of the equities – the BEE transactions seemed only to add a layer of shareholder obligations but did not involve any involvement in operations or strategic direction. This was an unavoidable consequence of the prohibition of a Black capitalist class during the apartheid era (Hirsch 2014; Tangri and Southall 2008), in contrast to Fedmyn, which had more than 30 years to develop expertise in mining.

In the core sector of mining, the BEE transition included the two companies at the centre of AEE transition: Anglo-American/De Beers and Genmin Finance corporation. Anglo-American unbundled its gold, platinum and coal mines into different entities, allowing Anglo to selectively sell its assets. There was a wide range of mining deals that had a multitude of BEE partners, including community trusts, union investment arms and politically connected individuals in companies. A wide variety of financing mechanisms were also used. Mvelaphanda Resources, connected to Tokyo Sekwale, an ANC political grandee, acquired 63 per cent of Northam Platinum in a BEE deal with Anglo Platinum. As it was debt-financed, the company had to pay regular interest payments. However, as the gold prices crashed and BEE partners were locked-in to keeping the shares, Mvelaphanda accumulated debts of R5.5 million (Kilambo 2021) before selling and diluting its shares ownership to meet those debt obligations. In a contrasting experience, Anglo-American sold Modikwa Platinum Mine and varied gold mining assets to African Rainbow Minerals, formed by Patrice Motsepe, brother-in-law to Cyril Ramaphosa, part of the ANC negotiation team during the transition. ARM entered into a servicing contract for one gold mining shaft, receiving 40 per cent of the revenue, which funded further acquisitions.

(Pre-)Distribution

AEE

With wealth secured, our next question is how it was distributed for broad-based advancement. Genmin wealth was part of a portfolio of investments owned, ultimately, by SANLAM – the key driver in Afrikaner Empowerment. SANLAM's profits, being mutual, were not only distributed between workers and executives, but also to policy holders. Indeed, the balance sheet is recognized as policy holders' funds. One of the unique ways that investments' profits are distributed in mutuals is through bonus returns (assuming that non-mutuals could also pass on profits through lower premiums etc.); more generally, mutuals *can* pre-distribute profits to customers. This was rooted in a clear empowerment focus at the core of SANLAM's business strategy, as illustrated by SANLAM's chairman's opening stated in the 1967 annual report:

> The new bonus system reflects our endeavour to let our policy-holders share in all the profits earned by Sanlam, including our profits on investments, and to let this accrue to our policy-holders as early as possible and to the greatest possible extent consistent with financial soundness … . (Sanlam 1967)

Holders of individual policies received bonuses through SANLAM's triple bonus system, the increase of bonus rates in the decade from 1962 to 1972 meant that a R5000 30-year policy would increase a sum-assured amount return to policy holder from 110 per cent to 244 per cent[11] by 64 per cent. Between 1961 and 1971, SANLAM bonuses and surrenders made up 10 per cent of payments to policy holders and beneficiaries.[12] The importance of the mutual for 'wealth sharing' is seen in Figure 2, which indicates that the funds

Figure 2. SANLAM policyholders funds and bonus vs comparative indicators (Index = 1960). Source: Sanlam Annual Reports, 1960–1974; World Development Indicators; Federal Reserve Economic Data, South African Reserve Bank.

attributable to policyholders grew far in excess of the market value of equity of listed companies on the Johannesburg Stock Exchange, and national income, while aggregate bonus payments grew in line with aggregate compensation. Policyholders also had another pathway to partake in the returns of SANLAM's investments through the choice of specific equity funds. Returns from state-supported industrialization would, via SANLAM subsidiary Bonuskor, also be shared with those who took out those policies.

BEE

In the Methold deal, the attempt to widen returns by enlarging shareholding to the Black public failed, as did the attempt to market the shareholding to Metlife's policy holders, who were predominantly Black (Verhoef 2003). However, any distribution to shareholders was not the same as the earlier SANLAM pre-distributive strategy, in which returns from investment and profits from increased business were shared annually to all policy holders, who would not need to raise capital to buy shares for a significant bonus to their sum assured amount. Moreover, Metlife itself was selected on account of its customer and employee profile – as a life assurance subsidiary that had in

> 1986 50% of all new business of Metpol originated from black people, 30% from coloured people and only 20% from whites. A total of 86% of the representatives of Metpol were people of colour, as well as 6 of the 12 regional managers. (Verhoef 2003, 38)

A strong share price is not an indicator of its core role in the economy, and this business did not have the same economic centrality as gold. NAIL's ordinary shares eventually traded at 23.6 per cent discount by September 1998 (Hirsch 2014), emphasizing the precarity of the transfer.

Wider distribution of profits was intended to happen through the channels of trade unions (and other public investment arms) and workers' pension funds. In the NAIL deal, shareholding was a minority and it was diluted by the multiple layers of shares and dividend payouts. In the Johnnic deal, the objective was for smaller investors to use the gains to develop capital that would spur job-creating industries. Yet the financing requirement was so steep that membership declined from 75 partners to 15 (Duke 1996). Investment gains were also intended to be shared with existing workers through unions. Yet, out of 53,117,200 shares in Johnnic issued to NEC, only 7 million were issued to mineworker unions, and 5 million to the SA Railway and Harbor Workers union, amounting to 7.9 per cent of shareholding in Johnnic. Moreover, this was purchased using pension and saving funds.

In the mining deals, debt financing distributed mining profits to banks to repay loans – Nedbank for example in the case of the Mvelapanda deal. The dilution of equity shareholding meant that profits were distributed to an ever-narrowing group of people.

In all these cases, there were no direct, regular or reliable pre-distributions of the surplus to the workers, equivalent to the bonuses paid to policy holders. These returns would only occur after debt repayments, and after that only speculatively, dependent on the incertitude of the stock exchange.

Economic policy framework

For Afrikaner empowerment, three channels supported wider accumulation: supporting SANLAM's business model, using tax revenue for welfare programmes, and pursuing economic policies aligned with SANLAM's investment objectives. Sadie (2002) noted the empowerment strategy faced three issues: low levels of income, risk-averse funds and no large Afrikaans firms 'with records of profits and growth over long periods and listed on the JSE' (Sadie 2002, 24).

SANLAM's expansion was funded by policy holder premiums, and it was by no means evident that there was a sufficient customer base for this strategy. Even with improved employment, the low average level of Afrikaner income did not yet allow savings to purchase policies. Apartheid's policy framework provided impetus by boosting Afrikaner employment through job reservations, led by state parastatals, and improving Afrikaner wages through 'semi-skilled' job reservations (supported by vocational training for Afrikaners). Freund (2020) reports that in 1954, white employees in ISCOR earned on average almost 5 times what African workers earned.

The government's economic policy was crucial, encompassing import-substitution industrialization that fostered domestic companies. The international political economic order allowed policy space to promote manufacturing investment. South Africa followed an import substitution industrial policy (ISI) with high tariff protection (Fine and Rustomjee 1996; Freund 2013b). Freund characterized this period as a Developmental State. Under Hendrik van der Bijl, key institutions including Eskom, IDC, ISCOR and Safmarine were developed, creating a nexus of financial, logistical and critical upstream inputs for manufacturing development. Macroeconomic factors created a favourable environment, with increased gold export receipts generating financial capital linkages between mining and industrial development. Government policies granted incentives to foster Afrikaner investment in manufacturing.

Government economic policies benefiting SANLAM also helped build an Afrikaner entrepreneurial class. SANLAM used profits to provide seed funding, notably Anton Rupert's Distillers Corporation – the first company that would become part of the global Rembrandt conglomerate.

In contrast, BEE was enacted during the adoption of the Growth, Employment and Redistribution (GEAR) plan, a macro-economic policy that largely took neoliberal prescriptions of fiscal contractions, semi-privatization of SOEs, and exchange rate and capital liberalization. This mirrored the objectives of unbundling the big conglomerates into its core operations and reorienting towards shareholder maximisiation, leading to restructuring and retrenchment. Reforms, such as permitting dual listing and entering into free trade deals, allowed protection for incumbent elites concerned with asset appropriation, and allowed them to financialize their assets and internationalize their capital. However, even as profits from mining industry were taxed, the revenue was not fed into a programme of industry development that may have developed an industrial elite and supported wider distribution through job creation.

This also limited the options available to unions and pension funds, the only mechanisms of redistribution, to access any returns from the assets by participating in the capitalist risk of the stock exchange. Nattrass and Seekings (2016) describe how this did succeed in specific cases (casino industry and, for a while, clothing industry). Our case study demonstrates three other cases that show the vulnerability of this involvement in 'casino capitalism', in which union and pension funds lost through the 'mechanism' of ownership on the JSE. Nattrass and Seekings (2016) also show how this strategy led to contradictions and tensions with union movements values and the overall mission to protect labour, whereas investment objectives would support rationalizations and labour cuts, a globally common restructuring practice in the neoliberal era. This is also true of worker pension funds, and specifically the Government Employees Pension Fund (GEPF) and Pubic Investment Corporation (PIC), tasked with managing the GEPF investments, which had ambitions to use its collective reserves to invest in and transform the economy. Yet in reality, in 2006 only 3.5 per cent of the PIC's funds were with Corporate Finance and Isibaya Fund unit, which had the objective to pursue transformation – which resulted in huge losses – and where the PIC facilitated BEE deals, it used funds to warehouse shares for a narrow elite, undermining its redistributive and transformative objectives (Hendricks 2008). Ultimately, macroeconomic paradigm limited the mechanisms to highly vulnerable processes of redistribution, and the contradictory tensions undermined the benefits in the bigger picture.

AEE and BEE: key contrasts

Case studies make the impact of early BEE deals on wealth distribution evident. Journalistic accounts value Ramaphosa's (NEC) and Motsepe's (Africa Rainbow Minerals) wealth in 2015 at R6.4 billion and R14.8bn, respectively, and Sexwale's (Mvelaphanda Resources) at R1.9 billion in 2013, placing them in the top 0.01 per cent of wealth distribution.[13] The ownership of key companies on the JSE collapsed from wider participation to narrower ownership, further concentrating wealth.

This comparison demonstrates the process of enhancing wealth concentration. The first challenge was the financial model, in which the transfer was financed through a mix of third-party funding, special purpose vehicles, debt financing, preference share instruments and equity participation. This created barriers for wider participation, as costs were too high or put gains at risk, where market volatility made costs relative to gains unsustainable. This contrasts with the asset transfer in AEE, in which equity funding shared risk and provided stable ownership. In the BEE case, this led to a collapse in wider equity transfer ownership, with assets being owned by a narrow Black elite or returning to the seller, maintaining concentrated equity ownership and wealth distribution. The second mechanism is the distribution of asset gains. In AEE, the vehicle was a mutual, benefiting the wider working population through bonuses. In BEE, distribution was through dividends (where available after financing costs), based on ownership, with wider ownership partial at best and subject to market volatility. Ownership was concentrated in the hands of few individuals. The third mechanism was the clear circulation and mutual reinforcement of gains in AEE, mapped in Figure 3, wherein surplus from assets due to elite transition allowed wider participation. Afrikaner workers, with state-supported job guarantees and wage premiums, could use savings to become SANLAM policymakers, whose equity-financed purchase ensured profit sharing via the mutual system. This was part of a larger investment portfolio that included SOE, which led to Afrikaner industrialization. Tax revenue from corporations and workers funded education, housing and welfare.

These routes were unavailable for BEE, as mapped out in Figure 4. Although asset transfer occurred, wider participation was promised via shareholdings, though it was too precarious to survive. While the state initiated housebuilding and social protection, this contrasted with neoliberal reforms, which reduced state support for employment-generating industrial development. The financial structure of deals determined the surplus available for distribution, further limiting distribution to the wider population. Consequently, BEE transactions resulted in greater wealth concentration.

Some existing analyses focus on financialization in explaining the failure of BEE (for example, Fine 2008; Southall 2007), arguing that it has made it 'relatively easy to accommodate incorporation of BEE as minority enrichment, since this can be promoted through access to the financial system' (Fine 2008, 3). Yet, this does not explain *why others* did not find it as easy for enrichment. In analysing the contradictions between union involvement to make financial gains rather than resist real-world restructuring in employment, a key driver of inequality, Nattrass and Seekings (2016) show that the rise in JSE market capitalization has provided, on occasion,

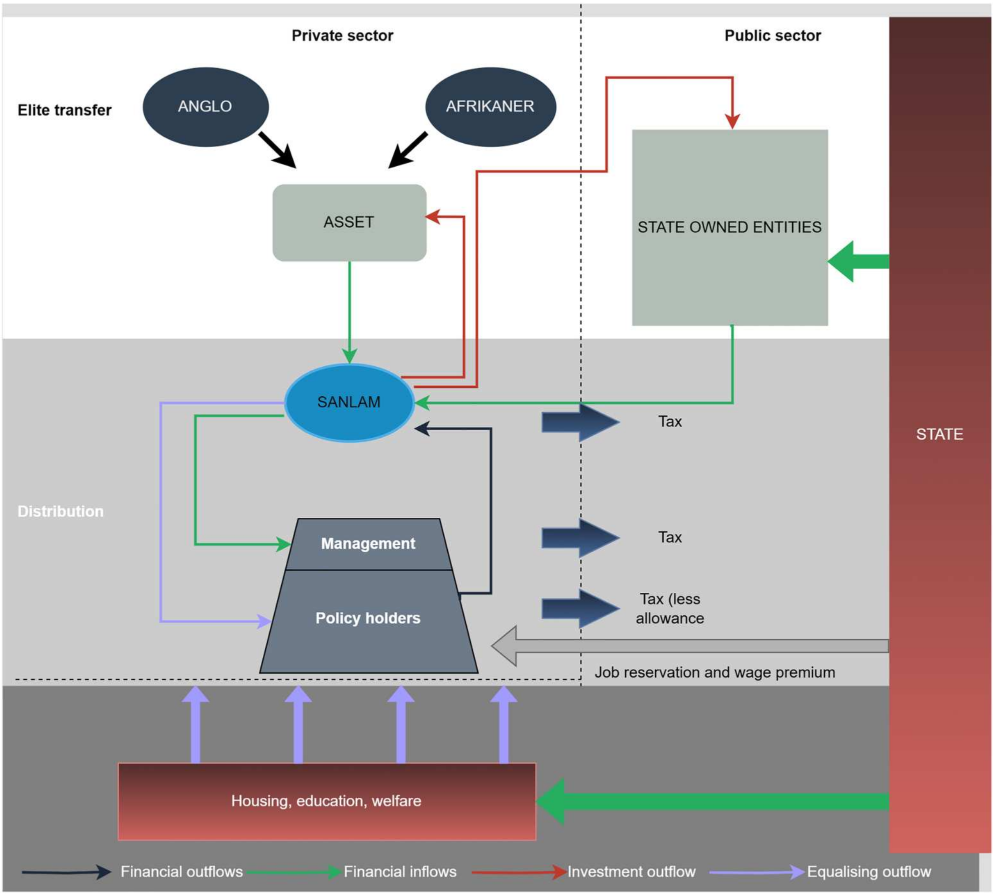

Figure 3. Mapping AEE flows.

significant resources for unions for wider distributive outcomes. They argue that empowerment tied to equity markets makes gains and positive outcomes risky. While agreeing with Seekings and Natrass's conclusions, we argue additionally that these models of wider society participation in gains were undermined by financial models, which failed to account for these risks and distribution mechanisms. And when these mechanisms failed, it didn't just provide losses, it destroyed the whole mechanism of redistribution.

BEE's challenge was not necessarily its link to a small Black elite: the blockages to wider advancement lie in the structure of empowerment, specifically the financing structure, lack of predistribution routes and an economic paradigm unable to link asset transfers to a developmental agenda. This reflects the power imbalance during the transition, which allowed the incumbent elite to drive deals with individuals, leading to a fragmentation of beneficiaries and a devolution of counter-power. Unlike AEE, wherein asset transfer beneficiaries were part of a unified strategic core, BEE recipients were not part of a unified economic power base with a larger and unified strategic direction, inhibiting a wider distributionary outcome.

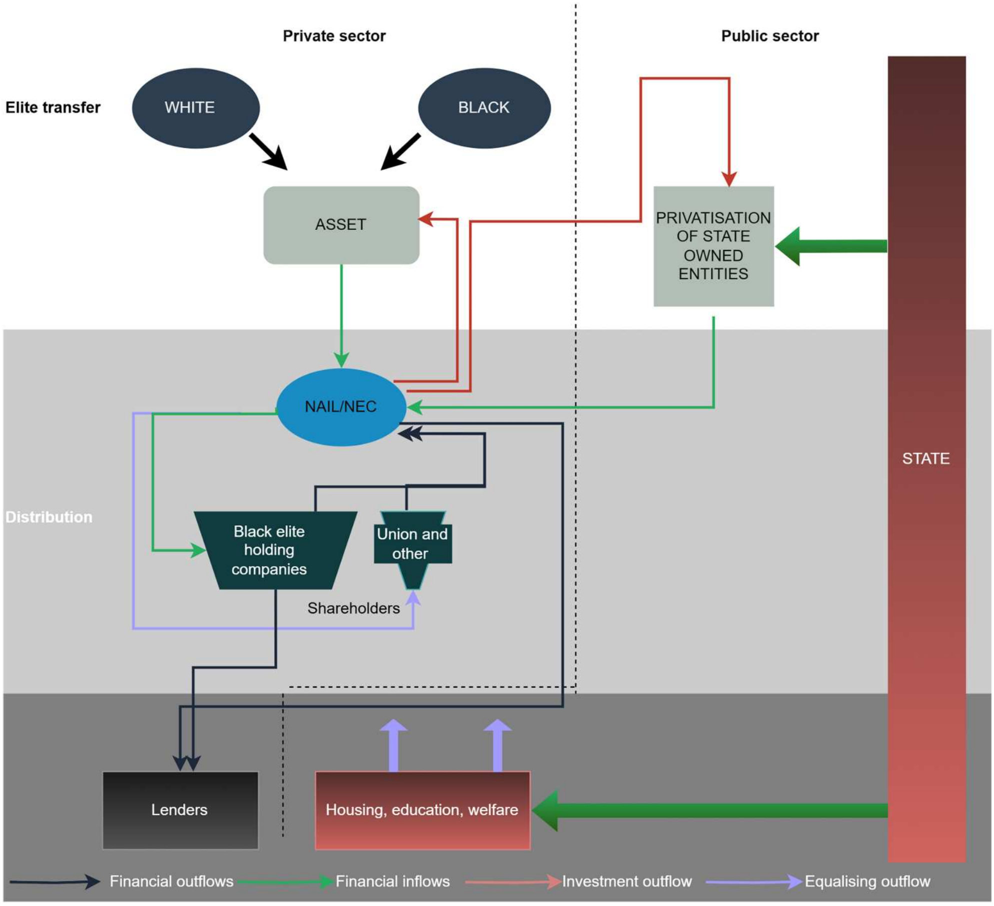

Figure 4. Mapping BEE flows.

Conclusion

Political transitions represent a rare moment in society to reconfigure the relational and distributionary patterns; we have used two such instances to trace the transfer assets and the routes through which its gains have different impacts. We have shown that the balance of elite power informs the very form of these empowerment mechanisms, but that, crucially, empowerment mechanisms must be defined not narrowly as an asset transfer, but holistically, incorporating the very form of those mechanisms at both the meso and macro levels. This approach both resulted from and reflected the balance of power of elites in this context.

Analysing these two empowerment programmes from an asset perspective suggests two significant issues, among others. The first is that timing matters: the contextual political economy meant that in the first transition, there were more policy tools and space through which to pass gains to a wider population; while, in the second transition, these were somewhat absent. Earlier transitions occurred in economic paradigms with heavy public investment, welfare systems and developmental states, while later transitions occurred in the neoliberal era, with lowered trade barriers, macro structural reform and fiscal consolidation. These factors are relevant in understanding how policies succeeded or failed in reducing inequality and how affirmative action empowerment projects set in transitions led to higher or lower shared prosperity. The second issue is that, despite occurring in an era with much more sophisticated financial mechanisms and technology available, these were often the cause of the failure to have distributive outcomes, rather than a means for the improvement of distributive outcomes through financial engineering. Instead, as is clear from the AEE experience in South Africa, an older mechanism of distribution, the mutual, was a strong mechanism for gains to be distributed among a wider population.

Notes

1. Black here is taken in the South African context of politically Black, which contains all the races and ethnicities excluded or oppressed, and classified as non-whites, by the Apartheid system. This includes the categories: 'Black,' 'Coloured' and 'Indian'.
2. The importance of ethnic nationalism and policies, such as forced removal, employment bars, influx control, and (exclusion from) property rights, that was core to the empowerment programme should not be understated – Afrikaner empowerment entailed black disempowerment, in a way far in excess of any affirmative action policies enacted since.
3. For reviews of this work, see Chaddad and Cook (2004); MacMinn and Ren (2011); O'Sullivan (1998); Talonen (2016).
4. This is cited in many opinion pieces and policy commentary, though objective evaluation of this is challenging (Ndzamela 2021).
5. Data from Labour Force Survey 2000, September, Statistics South Africa, downloaded from datafirst.uct.ac.za on 28th January 2025.
6. The empirical boundaries are slightly fuzzy, yet given the historical, cultural and political drivers the naming provide a useful analytical distinction.
7. Giliomee (2003) notes from government reports that 'Most [Afrikaner] farmers saw no need for a proper education for their children and were even more reluctant for their children to receive training in skills … More black and coloured children than whites attended school in the Cape Colony … By the 1890s Afrikaners seeking work in the towns were untrained and in many cases unemployable' (606).
8. In the Truth and Reconciliation Commission, the Chairman of Anglo American, Ogilvie Thompson, reflected that 'NP hostility towards the Anglo group was evident throughout in many statements by party leaders and the appointment of the Hoek Commission in 1964. These attitudes on occasion even prejudiced our ability to do business … ' (SAPA 1997).
9. In terms of overall Afrikaner accumulation, this deal was one of several accumulation strategies. However, both the symbolic and economic value of the deal to the *elite transition* is paramount, and the focus of this paper.
10. Contra to this view is one where the ANC faced no alternative for domestic and global reasons. Internationally, the collapse of the USSR had made the provided only the US-aligned institutions as sources of foreign capital. Aligning macro-fiscal demands voluntarily as opposed to external imposition, which would compromise domestic policy autonomy. Domestically, the ANC were constrained by the desire to avoid further bloodshed and civil war, and so politically were not in favour of a wealth tax or other means to lower debt. But what of the internationalization of South African finance? This was specifically in favour of the incumbent elite, which included liberalizing capital controls, unbundling and dual listings, which resulted in vast capital flight (Ashman, Fine, and Newman 2011), protection of assets from any appropriation, and a reduction in potential tax base.
11. As per Sanlam Annual Report 1972.
12. From 1972, bonus payments were not declared separately from surrenders.

13. The threshold for the top 0.01 per cent of the wealth distribution is estimated as R113 million in 2015 and R118 million in 2013 (Source: World Inequality Database). Journalistic sources are Forbes Rich list 2015 for Ramaphosa and Motsepe, and Sunday Times article on Tokyo Sexwale's divorce proceedings in the Sunday Times on 28 April 2013 (accessed at https://www.pressreader.com/south-africa/sunday-times-1107/20130428/282918087956424). None was found on Dr. Motlana.

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