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Extraordinary size of top companies lays basis for deep differentials in earnings and empowers managers and shareholders to shape economy

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About 600 companies out of 700,000 registered for tax account for two-thirds of all company income, measured by paid tax. On the stock exchange, 20 companies hold 80% of listed assets, says the writer. Picture: ISTOCK

SA's inequality is notorious. The richest 10% of households (now almost two-thirds black) controls more than half of household income and three-quarters of household assets. They contain only a tenth of people aged 18 to 24, but a third of university students. The best-paid 1% get nearly a fifth of all remuneration, compared to less than a tenth in the rest of the world.

Depressing figures such as these often distract attention from the even more far-reaching inequality in economic power that builds on big business. About 600 companies out of 700,000 registered for tax account for two-thirds of all company income, measured by paid tax. On the stock exchange, 20 companies hold 80% of listed assets. All except four are primarily in mining or finance.

The extraordinary size of the top companies relative to SA's economy lays the basis for deep differentials in earnings from work and investments. But it also empowers managers and shareholders to make decisions that largely shape the economy. Because big businesses are large institutions, their ownership and control are multilayered and hard to understand. We can map different layers of power over assets. But be warned: the huge sums involved are difficult to comprehend. And it's harder to track actual control than to quantify legal ownership.

As a group, private businesses owned R6.5-trillion in capital stock, mostly machinery, equipment and buildings in 2017. Companies with their main listing on the JSE were worth R14-trillion. That excludes both unlisted companies and those domiciled abroad, such as SAB and some top mining firms. Banks managed assets worth R5-trillion, and other financial institutions almost R10-trillion more. Most bank assets came from deposits plus retirement and other funds, with only a tenth from their own capital. Control over these resources lets the financial sector influence even the largest companies — and the government.

In 2017, public enterprises owned fixed capital stock worth R2.2-trillion, predominantly in Transnet, Eskom and Sanral. That was almost a fifth of the total, up from a seventh a decade earlier. Control over these assets was contested between the government and the executives of state-owned companies as they sought to satisfy the often contradictory demands of consumers, voters and creditors while holding on to well-paid jobs.

The richest 10% of households owned much more than half of household assets of all kinds, from company shares to retirement savings to housing. As a group, households held R8.5-trillion in financial assets, with just more than half in retirement funds and long-term insurance. The richest households wielded even greater economic power as executives and managers. They might not legally own big companies, but they often controlled their daily operations.

The flip side of concentrated ownership was limited small and medium business. In 2017, only 6% of employed people owned a business. That was 15% lower than in peer economies, largely due to the destruction of African farms and enterprise under apartheid. Meanwhile, 60% of all SA adults were jobless, or about 20% more than in peer economies.

Large companies also underpinned deep inequalities in pay. In 2017 PwC estimated the median CEO package on the JSE at R5.2m. In contrast, for all formal employees the median pay was about R4,000 a month; for all formal employers about R11,000. Listed companies typically benchmarked executive remuneration against Europe and the US. For ordinary workers, however, they generally looked to China or India.

In SA's relatively small economy, some modern businesses will necessarily loom large. The challenge is how to make them more accountable, not to try to shrink them. Jobs summit proposals range from greater openness about pay scales to increasing worker and community participation in boards to initiatives about more collaborative workplaces.

As always, the hard part is ensuring changes benefit the majority rather than just enriching the few, and minimising the inevitable risks and costs without falling back into inaction.

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