DIVESTMENT AND APARTHEID

by Marcia M. Burdette and Sanford Dumain

The Need for Action

Over the years many Americans have questioned the wisdom and morality of investing in the South African economy and making profits out of apartheid. Now, after the events in Soweto, the murder of Steve Biko, and the massive arrests and bannings in October, 1977 in South Africa, there is an increasing demand by members of religious institutions, universities and colleges, unions, and human rights groups to do something about American investments which help prop up the South African regime.

Events demand that the United States and other countries take a new approach toward South Africa. The most effective strategy would be to cut all economic, political, military and cultural ties -- or to say it in another way, to "disengage" from South Africa. In taking this step, the United States would not be alone. Several other Western states appear to be evaluating new options in their relationship to apartheid. Speaking for all nations, the United Nations has increased its traditional opposition to racism in South Africa with an arms embargo of South Africa and a call for an end to economic collaboration with apartheid. But voluntary compliance with this kind of boycott is unlikely without a major commitment not only by the American people but by their President, his administration, and Congress.

Why Divestment?

In attempting to move the country closer to the eventual goal of disengagement, those in favor of such action have proposed a short term strategy of "divestment." Divestment, in its first stage, means the sale by organizations and individuals of their investments (stocks and bonds) in corporations or banks* conducting public or private business in or with South Africa.

This is not as simple as it sounds because it is estimated that more than 350 American corporations or their subsidiaries have invested more than $1.6 billion in South Africa. The list includes many of the largest companies in the U.S. Much of this investment goes to areas that are of strategic importance to South Africa -- motor vehicles, heavy engineering, electronics and computers, tires, chemicals, pharmaceuticals and oil. And, as one South African businessman has put it, "It is not just the capital they are giving us. It is the technology."

*Most people are not in a position to actually "divest" from a bank which would mean selling stock or bonds held in a bank as a corporation. But individuals' and groups' checking, savings and pension accounts can be withdrawn.
As a logical extension of this corporate involvement, U.S. and Western banks have granted substantial loans to the South African government and its parastatals (government-controlled corporations). At the end of 1976, U.S. bank loans to South Africa totalled more than $2.2 billion. Bolstered by this tremendous influx of funds from the West, South Africa's leaders have engaged in massive investments and armaments projects. According to a U.S. Senate report,* the import costs of oil (South Africa has no domestic oil) and defense materials alone increased 500% between 1973 and 1976. Recognizing the "propping up" role of U.S. companies and banks, those favoring divestment see the move as an economic action directed at the base of that support.

Yet this divestment of stocks and bonds in U.S. corporations doing business in or with South Africa is not an end in itself. The goal is for this removal of investment in these corporations to make business people involved reconsider their own presence in South Africa and, it is hoped, to encourage them to withdraw from South Africa. Challenging banks and corporations in open forums threatens, at least minimally, such organizations' economic base through well-publicized concern about their behavior in South Africa. In this way, many companies will be strongly pushed to end their economic collaboration with South Africa. This is the second phase of the divestment strategy.

**Divestment vs. Other Actions**

While divestment is a growing strategy in the battle against apartheid, other options have been considered. Because the situation in South Africa continues to worsen in a dramatic fashion and the abuses of that regime are now covered by the Western press, many organizations see the option of doing nothing as no longer available.

Some activists have suggested employing various tactics within the corporate structure. Stockholder resolutions on South African issues have been tried for almost 10 years with only limited success. One reason for this is the very nature of the arena: because these battles are conducted within the annual stockholder meetings, they gain little publicity outside of the other stockholders present and perhaps some coverage in the financial press.

Recently another suggestion has been voiced: that stocks and bonds should be retained so that profits realized from such investments could be sent either to the liberation movements struggling to overcome apartheid or to refugees fleeing South Africa. The irony of engaging in an action which contributes to the repression of people in order to obtain limited funds to return to these people is too clear to require much response. But it should be noted that the profits returned to the shareholders are just a portion of the surplus wrung out of black labor in South Africa. As with all corporations, a certain percentage is retained in the company for future development and expansion. On these and other practical grounds, this option is readily dismissed.

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So in the spectrum of possible actions, divestment is the strongest tactic because it confronts these corporations in a way that can affect their financial future. It also involves a level of institutional confrontation beyond that of individual action or consumer boycotts. Divestment and eventual withdrawal in turn can force some reconsideration of racial policies by South African leaders. As Steve Biko, the founder of the Black Consciousness Movement in South Africa, said prior to his murder in prison:

Heavy investments in the South African economy, bilateral trade with South Africa,...are amongst the sins of which America is accused. All of these activities relate to whites and their interests and serve to entrench the position of the minority regime. America must therefore reexamine her policy toward South Africa drastically....whilst it is illegal for us to call for trade boycotts, arms embargoes, withdrawal of investments, etc. America herself is quite free to decide what price South Africa must pay for maintaining its obnoxious policies.

Can Divestment Work?

Most American companies involved in South Africa have a relatively small percentage of their overall investments and assets in South Africa, although the profits linked with these investments sometimes have been as high as 22% of annual earnings. It would not fundamentally affect most corporations to sell their assets or investments in South Africa or to end their business with the South African government or firms there. Despite this limited involvement, no corporation willingly withdraws from a money-making situation unless there are strong pressures to do so. That is where the divestment campaign comes in.

Divestment from these companies is not likely to directly affect the market price of the stocks in the short run. 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 question of South Africa. What corporation managers and directors fear is that this kind of climate can be extended to include questioning of all of their economic behavior or policies. Public reaction to corporate intransigence and inappropriate conduct in one field can have the effect of making these companies unattractive in the long term because of their becoming identified in people's minds with negative behavior. To cite a comparable case, the stock of J. P. Stevens is undervalued as an investment today, reflecting the hard-fought battle and the bad publicity generated by the confrontation between the firm and organized labor over Stevens' labor practices.

When faced with these possibilities, executives and directors of corporations will be forced to balance their loss of investors (or depositors), the possible loss of future markets for their goods, and a decline in the value of their stock against whatever gains they are making out of the exploitive labor system of South Africa.

Banks are particularly sensitive to these kinds of pressures because they are more directly dependent upon depositors' funds than other corporations. But other companies are also concerned about public relations and spend considerable funds on keeping a good name with the public. On a scale of responsiveness to shareholder and activist pressures, just below the banks are those industrial
corporations such as Polaroid that specialize in consumer products. Polaroid's ending of business ties with a South African distributor in 1977 came as the culmination of a long and well-publicized battle which had started several years previously when workers at Polaroid discovered that the Polaroid I.D-2 System was being used in South Africa in making the hated passbooks. The company promised that this would stop and that no photographic materials would be sold directly or indirectly to the South African government in the future. The company finally halted its $4 million sales business with South Africa when it was forced to acknowledge that its promise had been broken by its sales agent in South Africa. Bad publicity was potentially more important than possible profits from sales in South Africa.

Few companies are as willing as Polaroid even to take a stance on their South African exposure. The banks hide behind the need to maintain the "confidentiality of clients" and are reluctant even to tell depositors to whom their money is being lent. Most unresponsive to demands for information and divestment are likely to be the big multinational firms which have world-wide investments on such a mammoth scale that they are likely to be less influenced by social responsibility issues or economic pressures from small stockholders. Examples of this group are the big oil companies -- Mobil, Caltex and Exxon. But they, too, can be influenced, if they are made the targets of divestment campaigns.

There are additional factors besides public pressure which might influence corporations toward disinvestment. The deepening crisis in South Africa affects the huge profits from that country. The days of almost 22% return on invested capital are over. As a reflection of growing economic and political tensions, total American investment in South Africa grew by only 5.5% in 1976, down from an average of 24% in the preceding three years. A trend appears to be developing in which corporations reinvest money made within South Africa but don't bring in new capital. American investors can be thus perceived as being more wary of pouring money into the South African economy in recognition of the unstable situation there.

About 15% of the American companies in South Africa are now considering pulling out, according to some estimates, and others are not expanding. Given this ambivalence, if public pressure is linked to some economic reality for the directors of these firms, the officials may see it as in the corporate interest to consider withdrawing from South Africa.

The Cost of Divestment -- Fees

Because the situation in South Africa is so patently a violation of basic human rights, most managers of organizations and institutions interested in that issue insist that they abhor apartheid. But they say that the divestment strategy would cost too much. In this controversy two issues have tended to become confused. One is the basic question: "Should we, on moral, political, or economic grounds divest in corporations and banks doing business with or in South Africa?" The second, and quite different issue, is the practical matter of "How can we do it?" -- Or more precisely, "How can we do it without ruining ourselves financially?"
Some cost-benefit analyses have been presented by those who oppose divestment, e.g. the Massy Report from Stanford and the Eckland Report from Yale. Both of these studies examine exclusively the cost side of the question. Possible benefits are not discussed.

From the start, it is important to recognize that there will be some costs involved in both Phase One and Phase Two of divestment in South Africa. There are always costs involved in making a choice out of social, moral or political opinion rather than solely on the return on the dollar. Cost consists of three components: transaction costs; loss of potential investment opportunities and lessening of the flexibility of the portfolio; and the loss of possible gifts from individuals or corporations to any institution in the form of stock or bonds.

The Yale University Report, as well as the report from Stanford's financial experts, emphasize items including brokerage fees to bolster their arguments. Basically, they say that "Yes, we too abhor apartheid, but these particular costs are so high that they would mortgage the future of our institutions." This argument rests on a dubious premise that financial managers of institutions do not transfer stocks and bonds frequently because of the costs of brokerage fees (between .27% and .6%) and other costs. They imply that large and static stock portfolios are the most secure kind of money management.

Although these fees and loses appear high to someone not used to management of large sums, they actually entail a small part of overall estimation of loss and gain involved in investing. Despite the frightening figures produced by Massy ($1.4 million) and Yale's treasurer (between $2.5 million and $9.9 million), when managers decide to buy or sell a stock or bond brokerage fees incurred are of small consequence. The change of a percentage point of the price of a stock swamps these transaction costs. Large blocks of stock are traded at a considerable discount as well. Additionally, most institutions annually change a certain percentage of their holdings in the process of business as usual. That varies with the market and the kind of institution, of course. The Stanford Committee For a Responsible Investment Policy (SCRIP) estimated that Stanford already turns over 15% of its endowment securities each year. A proposed new Dreyfus fund would turn over almost 100% of its stock annually in order to get the best market results.

In the period when mutual funds were most successful, such funds' high turnover contributed to their good performance. The major point, however, is that the total commission for the buying and selling of securities should be a small fraction of the change of price in a successful investment. Furthermore, most institutions calculate general transaction costs into their estimates of expenses for the year. Additional costs over and above what the organizations would normally spend is a more realistic figure for cost. As the Yale Report admits, "only a small part of the costs of policy which would prohibit investments in certain companies relate to divestment" (cp. 17).

The Cost of Divestment -- Lost Opportunities

A more serious argument against divestment, also noted in the Yale Report, is that "the larger part are costs incurred after the divestment action has been accomplished." In this argument, the writers of the report refer to the
limitations on where an institution's managers can place money in the present and in the future. In their opinion, divestment would amount to exclusion of many of America's largest companies and therefore affect the return on investments in the future.

They overlook two things. First, divestiture need not be permanent. Increasing numbers of companies are considering severing their South African connections. In addition to the Polaroid case already mentioned, several companies have shown concern about the future of their investments in South Africa. Weyerhaeuser International (a subsidiary of Weyerhaeuser Co.) and I.T.T. have sold their interests or assets in South African firms but kept a large chunk of the shares. Chrysler merged its ailing subsidiary in South Africa with a South African company, keeping about 25% of the voting stock. G.M., Gulf & Western and Control Data have decided not to enlarge their investments in South Africa. Other firms have initiated in-house studies of the possible gains and losses in limiting their involvement in South Africa. Some have already commissioned studies on the mechanics of withdrawal from South Africa.

Several European banks have withdrawn from South Africa and on this side of the Atlantic, in March 1978 seven large American banks -- Chase Manhattan, Citibank, Chemical Bank, Continental Illinois, First National Bank of Chicago, Northwestern National Bank of Minnesota and First Wisconsin Bank -- responded to pressure from depositors and shareholders concerning their loans to South Africa by issuing public statements in which they promised not to loan money directly to the South African government in the future. Such steps toward divestment seem likely to increase.

In Canada, in 1972, the government-controlled Crown Corporation Polymer got rid of its investments in South Africa. Last year, the Minister of External Affairs announced a phasing out of all its government-sponsored commercial support activities in South Africa. This includes the withdrawal of commercial counselors from Johannesburg and Cape Town, and withdrawal of governmental support for export credit insurance, loan insurance, and foreign investment insurance for any transaction relating to South Africa. In a recent move, Grandy Mining Company pulled out of South Africa and cited "political pressures" as well as actual mining problems. With this growing national and international awareness of the risks involved in investing in South Africa, the trickle of corporations withdrawing should increase, thereby opening up additional investment opportunities.

The second matter that the exclusion argument overlooks is the growing instability of South Africa itself, making it a poor investment risk. A University of Delaware business survey indicated that prospective U.S. investors considered South Africa on the verge of becoming a "prohibitive risk." By this phrase they meant that, in the future, South Africa is likely to have political conditions that severely restrict business operations. As one executive of a divesting corporation put it, "A large army and defense budget equal greater taxation."

One final point on the question of lost opportunities is that of the wisdom of investment in these large American companies in the first place. Much doubt has been expressed as to whether the biggest companies, such as those on the Standard and Poor's 500 List (and focused on by the Massey and Eckland reports) are the best investment opportunities. The market indices for 1977 showed that the performance of the big companies (using the Dow Jones Industrial Average) was down whereas the secondary companies, more often listed on the American Stock Exchange,
did better for the year. Whether this is a long term trend is hard to tell, but many of the arguments given by portfolio managers and pension fund managers are based on somewhat uninspired money management. When you get down to the nuts and bolts of these cost arguments, they often appear to be an excuse for poor practices.

The Cost of Divestment -- Donations

The third element in the cost calculations of divestment is the question of the loss of possible donations and gifts to an institution in the form of stock or bonds in corporations which have ties to South Africa. Obviously, this point affects universities and religious institutions more than unions or civil rights groups. Because of the speculative nature of this argument, most of the financial reports on cost of divestment have not assigned a figure for the policy of exclusion of these kinds of gifts. The argument itself raises questions about the interconnections between these institutions and the corporate world which are far too weighty and lengthy to explore in this pamphlet. It also suggests economic blackmail of the institutions at best and interlocking directorates at worst. Needless to say, if the content of an academic lecture or of sermons had to be cleared through possible lenders, the outcry would be immediate. Furthermore, corporations are likely to continue some support despite their disagreements with investment policies of an institution. Colleges and universities produce the management personnel and technological expertise upon which these corporations depend. Religious institutions and unions express attitudes on morality or politics or economics that certainly are not limited by the corporate ethics of the day.

The Cost of "Business as Usual"

In conclusion, the cost argument is not as straightforward as the reports might suggest. It is clear that some costs are involved, if only the brokerage fees for selling the stocks and bonds over the amount normally turned over in a given period of time. But these costs amount to far less than the estimates given by the financial officials of these institutions.

But there is another side to the story. In these reports, no calculations have been made of the costs in continuing "business as usual" with apartheid. Potentially, these social and economic costs are far greater than the immediate gain to US investors and lenders. One component of this sort of cost is the cost of continuing to invest in South Africa and prop up the regime there. In terms of human life within South Africa, the cost of the system is almost incalculable. Since 1976 the killing of over 600 people stemming from the confrontations in Soweto has been followed by a nationwide intensification of oppression through arrests, disappearances, firings on illegal strikers (all strikes by South African blacks are illegal) and so on. On October of 1977, many of the remaining spokespeople for the Coloured, Asian and African communities were arrested or detained. The murder of Steve Biko, a major figure in the Black Consciousness Movement, while in prison, provided a further example of the likely treatment of anyone who opposed the state, even from a non-violent perspective. Throughout the non-white communities, the people most likely to represent a potential leadership for a multiracial South Africa are being systematically silenced or eliminated.
Onto this human cost must be added the immense expense in man-hours and equipment for the whole "separate development" scheme. Under this program, over two million Africans and one-half million Coloureds and Asians have been removed from their homes in the urban areas and banished to the rural slums called bantustans. The government of South Africa has then set up sham "states" such as the Transkei out of these bantustans, justifying their regime as "multinational." Instead, the plan deprives black South Africans of their very citizenship in South Africa, which is where most of those who are employed work. The cost of financing these states and the enormous police and bureaucratic apparatus to control them is tremendous. So far the brunt of these costs of apartheid have been borne by the South Africans through individual and corporate taxation and indirectly aided by Western bank loans. But how long will it be before these costs become transferred into new charges to foreign investors for the privilege of using South Africa's resources and cheap labor? How much more capital are Western banks willing to provide to this evolving police state? Yet to base our hopes for a change in South Africa solely on the economic decline of that state is a mistake. Despite the bad political and economic climate there today, US corporations still make a higher return on their money than in most of the countries in the world. U.S. banks and corporations should not be pressured to divest because they will be hurt economically in the future but because there is a moral imperative not to make blood money out of the racist labor system of South Africa.

There is also a domestic cost to maintaining corporate ties with South Africa. In addition to colleges and universities and religious institutions, other sectors of American society have become involved. In particular they are aware of the connection between the racism of American business at home and its behavior in South Africa. Despite over one million dollars worth of public relations money spent by the South African Government each year in the U.S. alone citizens everywhere are becoming more concerned. Many unions have taken strong stands on this issue by withdrawing payroll and/or pension accounts in banks lending to South Africa. These include the United Radio, Electrical and Machine Workers Union, the Furriers Joint Council and the Fur, Leather and Machinist Workers Union. They have been supported by the Executive Board of the United Auto Workers. The International Officers of the International Longshoreman's and Warehouseman's Union have taken the next step and called on their pension fund managers to "divest themselves of investment they have in U.S. firms doing business in South Africa." In addition District Council 31 of the Steel Workers Union and District 1199, National Union of Hospital and Health Care Employees voted to endorse the divestment and banking campaigns. In February of 1978, the AFL-CIO added its influential voice to those calling for withdrawal. In its statement, the Executive deplored the escalating repression in South Africa and stated that the "U.S. corporations should immediately divest themselves of South African affiliates and sever all ties with South African corporations."

In Washington, the Congressional Black Caucus has been active on South African issues as well. Most recently they have joined the campaign against Export-Import Bank loan guarantees. The NAACP took a major step forward and called for the total withdrawal of American business from South Africa. Several prominent black Americans formed the Emergency Coalition for Human Rights in South Africa with the intention of eliminating EXIMBANK guarantees for loans to U.S. companies trading and investing in South Africa. In this effort, they have been joined by the Washington Office on Africa whose sponsors include the United Auto Workers, the NAACP, the U.S. Catholic Conference, the Coalition for
a New Foreign and Military Policy, the American Friends Service Committee, the Phelps Stokes Fund, Americans for Democratic Action and the American Committee on Africa.

Events in the spring of 1978 dramatized the growing concern on campuses about the investment behavior of their institutions. The nationwide potential of dissent focused on corporate and US foreign policy towards South Africa entails a possible cost much higher than that of a temporary divestment.

The Benefits of Divestment

A final point is the possible benefits of a divestiture action by an institution. Although much of what is loaned to South Africa is in the form of Eurodollars, the extension of loans abroad lessens bank funds available for mortgages, home improvement loans, low interest student loans and the like. By making profits out of the payment of near starvation wages to blacks in South Africa, U.S. corporations ignore all pretense at fair employment laws. They export U.S. jobs abroad, thereby increasing unemployment at home while not measurably improving the standard of living for blacks in South Africa. The only people who make money out of this sort of arrangement are the banks, the corporations and the South African state. Head offices of these banks and corporations choose to invest overseas in a region renowned for its oppression while the urban centers of North America are crying out for funds.

Although it is not within the scope of this pamphlet to make suggestions on alternative investments, there are growing possibilities in the area of solar energy, environmental concerns, and the like. In this way, a one-time issue such as divestiture in South Africa gives interested people in these institutions a clear challenge to enter into a new phase of planning so that their financial behavior comes into line with their social proclamations.

In conclusion, waiting for the situation in South Africa to widen into a large scale race war, with the United States and other Western countries on the side of the apartheid regime in order to protect their investments, could be catastrophic. But in the aftermath of the Vietnam War, no one should consider it impossible. If this image of impending war seems farfetched, one has only to recall the existence of the National Supplies Procurement Act which authorizes the South African government to order any company which operates in South Africa to manufacture and deliver to it goods determined to be essential to the national security. Divestment efforts can influence the degree of U.S. involvement with the present regime. Along with diplomatic pressures, such efforts can go beyond the window dressing of the past few years to help bring about an end to South Africa's policies of racial discrimination and exploitation.
QUESTIONS AND ANSWERS ON DIVESTMENT

As the struggle over divestment in corporations investing in South Africa has intensified, many questions have been raised. Below are some of the most commonly asked with answers which should be helpful to anyone involved or interested in divestiture.

QUESTION 1: HAS THE DIVESTITURE PRESSURE HAD ANY RESULTS SO FAR?

YES. The first breakthrough came when several European banks announced their opposition to further lending to South Africa. The Algemene Bank Nederland (ABN), a Dutch bank, a long time participant in loans to South Africa, was the first financial institution to indicate a political rationale for its action. According to a bank spokesperson:

apart from the increasing economic crisis attached to such a loan, one of our considerations has been the growing criticism, nationally and internationally, both within and outside ecclesiastical circles, of the situation in South Africa, particularly with respect to racial discrimination...our Managing Board has an understanding for this criticism, because our decisions...are not governed by the profit motive alone, but non-commercial considerations also play an important role in the process of making decisions.

Further,

A real solution must be found for the present racial discrimination before South Africa will prove an acceptable debtor again, from a political as well as an economic point of view.

As mentioned in the text, in March of 1978 seven large American banks responded to the pressure in the press and from depositors and shareholders. In their public statement, Chemical Bank promised that they "are not currently undertaking loans to the South African government or government controlled corporations."

These statements may simply be public relations ploys to make use of the fact that the banks may have already reached their lending limit to South Africa. Also, these clarifications of bank policy conveniently appeared just prior to the annual stockholder meetings of the banks. At these meetings were scheduled stockholder resolutions calling for full disclosure of what loans have already been extended to South Africa. Nonetheless, this was the first crack in the wall of silence on this side of the Atlantic within the big banking community concerning policies toward South Africa. According to a study by the Investor Responsibility Research Center, Inc., the growing "hassle factor" to these banks because of public pressure makes South Africa a less attractive investment area than it once was.

Also as explained in the text, several American and Canadian corporations have withdrawn or diminished their involvement in South Africa. Others have studied the "costs" to them of divesting or withdrawing from South Africa and remain on
the fence as far as the final decision. Influenced by studies such as the University of Delaware business survey which cited South Africa as moving into the "prohibitive risk" category, fewer American companies are investing in apartheid. So continued pressure from stockholders and consumers can ultimately affect strategic planning at the highest level of corporations. Enough pressure can force these companies' executives and directors to balance their gains from South African investment against their losses in the home country because of these obnoxious practices.

**QUESTION 2: WHAT GOOD WILL IT DO IF AMERICAN CORPORATIONS AND BANKS DO PULL OUT OF SOUTH AFRICA?**

The impact would vary from industry to industry. But an example from the automotive industry is telling. Together, subsidiaries of the three American companies -- General Motors, Ford, and Chrysler -- control nearly 50 percent of the automobile market in South Africa. These subsidiaries provide vehicles not only for the economy but for the military and police. A withdrawal by these companies would seriously affect both the economy and the armed forces. With the current shortage of money and a growing balance of payments/trade problem, removal of these strategic investments and materials would potentially rock the whole economy. On a cumulative scale, American direct investments total almost one-fifth of South Africa's total foreign investments, just after the U.K.

This has a psychological dimension as well. In 1960 in Sharpeville, South Africa, an unarmed crowd of Africans demonstrated against the insidious pass books which were a symbol of their daily oppression. They marched to the police stations and post offices and burned the pass books as symbols of "apartheid." The police opened fire and killed at least 67 and wounded many others. This is called the Sharpeville Massacre, and it is as significant as the Boston Massacre was at the time of the American struggle for independence. In its wake came a series of strikes and demonstrations. The effect on the South African government and the economy was immediate. Direct foreign investment slowed down measurably and the whole economy was shaken. Temporarily the pass laws were suspended and many voices, black and white, were raised within South Africa, demanding reform. But this moment of "liberalism" did not last.

At a crossroads in its political history, the South African government chose the tactic of heavy repression on a scale never before experienced in the country. All important opponents were jailed, banned, killed, or forced into exile. Foreign investments once again flooded into the country. Aided by a booming market for gold and other minerals, the South African economy recovered. Out of its newly received profits and taxes, the government chose to arm itself to the teeth. Without the large scale Western investment, the South African regime would have had to deal with an internal situation which might have included some basic civil rights for non-whites, increased wages and a general liberalization of the system for all citizens. Instead, as South African Prime Minister John Vorster put it:

"Each trade agreement, each bank loan, each new investment is another brick in the wall of our continued existence."

Constant activity on the divestment issue, pressuring corporations and banks and thereby affecting the investment climates, can be a direct aid to those struggling under more threatening circumstances to dramatically alter apartheid in South Africa.
QUESTION 3: OUR PENSION FUND MANAGERS SAY THAT THEY HAVE FIDUCIARY RESPONSIBILITIES THAT WOULD BE VIOLATED BY DIVESTMENT OVER THE SOUTH AFRICAN ISSUE AND THIS COULD HAVE GRAVE LEGAL CONSEQUENCES FOR THEM. IS THERE ANY MERIT IN THIS ARGUMENT?

It is true that most managers of non-profit institutions are bound to try to invest in the most productive and profitable way possible. But these same institutions usually have some limiting principles written into their founding charters or legislation. Most of these principles include a provision that the organization's behavior should not be inconsistent with the constitution and laws of the state nor the Constitution and laws of the United States. Examination of the situation in South Africa reveals that these companies violate, in spirit if not in letter, many of the major tenets of American law -- equal rights under the law, prohibition against discrimination in voting, accommodations or protection of the law. In this light, it can be argued that by investing in corporations who participate in apartheid in South Africa, these trustees or managers are already in violation of the moral trust vested in them.

On more economic grounds, such institutions' managers have sold large blocks of stock in the past without legal complications. They certainly have the legal and economic right to abstain from certain investments for moral reasons. For example, many churches and related institutions have traditionally had prohibitions against investments in companies involved in the production or marketing of alcohol or cigarettes. In addition, several institutions have already divested without legal consequences.

It is important to note that the divestment campaign is not suggesting that funds that are invested in apartheid-related corporations be thrown away. Many non-profit institutions have highly skilled investment advisors. These people should be able to find suitable investment opportunities. If institutions claim otherwise, they are saying that they cannot divest because they are incompetent. This is hardly a reasonable excuse.

QUESTION 4: WHAT ALTERNATIVE INVESTMENTS DO YOU SUGGEST?

Picking "clean" investments is a difficult task since corporations are out to make money, not to support social development. But there are people in the investment profession who are well versed in the organization of accounts around particular issues (or away from particular involvements) or simply with a sense of general social accountability. Dr. Robert Schwartz, an economist and vice president of Shearson Hayden Stone Inc. in New York City, is one such individual. Since the days of the anti-war protests, Dr. Schwartz has been involved in giving professional investment advice to individuals and organizations wishing to set up socially responsible portfolios.

Although it is not in the scope of this pamphlet to make direct suggestions we can say that if you are clear about your priorities for investment of your funds, you can find a good stockbroker or analyst who will help structure a highly satisfactory portfolio.
QUESTION 5: THE CORPORATIONS WE HAVE TALKED WITH SAY THAT THEY HAVE SIGNED THE SULLIVAN PRINCIPLES. WHAT DOES THAT MEAN? DOES IT MAKE ANY DIFFERENCE?

The Sullivan Principles were established by a member of the General Motors Board of Directors, Rev. Leon Sullivan, as guidelines for operations of American firms in South Africa. Many corporations have embraced these principles. Their logic is that if they are doing all that they can for their non-white employees within the existing laws, then they are acting as a progressive force against apartheid. But this is not true. The laws are such that there is little if any tangible value in these principles. For example, the issue of non-segregated washrooms and eating halls simply does not hit at the basis of a system where blacks are paid a fraction of the salaries of whites and all political rights are refused them.

By remaining in South Africa, these corporations are giving large amounts to the South African government in the form of taxes which are used to oppress the majority of the population. Furthermore, much of what these subsidiaries produce in South Africa is used by the government to bolster its economy or military. This is particularly true in the automotive and computer industries. As a measure of the insignificance of the Sullivan Principles, the reaction of the South African press is interesting. The prestigious Financial Mail termed the Sullivan doctrine a "damp squib" -- which means a firecracker that never went off.

QUESTION 6: OUR INSTITUTION DOES NOT HAVE A LARGE ENDOWMENT OR PORTFOLIO, BUT WE DO KEEP OUR ACCOUNTS AND PENSION FUND IN A BANK LISTED AS LENDING TO SOUTH AFRICA. WHAT SHOULD WE DO? ARE BANKS AS "BAD" AS CORPORATIONS?

Western banks are heavily involved in supporting the South African government. The millions of dollars that are sent to South Africa to support racism lead to racist policies at home as well. As the inner cities decay, American banks refuse to make loans and grant mortgages to stop this trend. Banks do this by a practice called "red-lining." They will take a map and draw a red line around what they perceive as a high-risk neighborhood. Anyone applying for a mortgage within the red line area cannot obtain funds to help improve his or her home or community. This is done because banks only have a certain amount of funds available and they wish to put them in areas of the lowest risk. But one reason that more funds are not available is because of the enormous loans to South Africa -- $2.2 billion in just two years between 1974 and 1976.

Personal and institutional actions toward banks are often quite successful because banks are very sensitive to the need to keep a good name. Most big banks in the U.S. and Canada have been implicated in loans to South Africa and many are listed at the end of this pamphlet.

Your organization might choose to begin a letter campaign to your banks, culminating possibly in a well-publicized withdrawal of funds. Although the extent of your resources may be small, the publicity attached to their withdrawal is not. Deeply concerned about their image, banks need to be pressed to take a stance otherwise alien to their typical investment patterns.
There are many banks which do not lend to South Africa and would welcome your business. In the New York City area some of these are:

- The Bank of Commerce
- Banco de Ponce
- Bank of North America
- Chelsea National Bank
- Freedom National Bank
- The Chinese American Bank
- U.S. Trust Company
- The First Women's Bank
- Amalgamated Bank of New York
- Central State Bank
- Merchants Bank of New York

Some organizations find themselves in the bind that they need to be depositors in a large bank for overseas banking purposes. You might consider the approach taken by C.U.S.O. in Canada. The Organization withdrew most of its funds from the Royal Bank of Canada, leaving only a small amount to cover current accounts and international transactions. Individuals employed by the organization could then choose in which bank or credit union they wished to have their pay check deposited. For religious institutions with overseas missions or unions with international ties, this method might be more satisfactory. But, whatever you do, make a large fuss about it and make the bank's management aware of the reason for your complete or partial withdrawal. These individual actions have a cumulative effect.

**QUESTION 7: SOME HAVE SAID THAT CORPORATE DIVESTMENT WILL ACTUALLY HURT THE NON-WHITES BECAUSE THEY WILL LOSE THE FEW JOBS THAT THEY DO HAVE. ALSO, THEY ARGUE THAT A DESTABILIZED ECONOMY WILL CAUSE EVEN MORE HARDSHIP AND BRUTALITY. IS THIS TRUE?**

In 1972 the Black Peoples' Convention Congress adopted this statement:

Advocates of continued investment claim that if foreign investors withdrew this would result in large scale unemployment of Blacks. Withdrawal can only mean the downfall of the Vorster regime. Black people have pledged themselves to fight for freedom whatever the cost. Black People have endured much suffering and cannot suffer beyond this. Black people in general are prepared to suffer any consequences if this means ultimate Black freedom... Foreign investors claim their presence in this country contributes toward the development of the black community. This claim is disputed by the reality of the black experience in this country. We resolve therefore:

To reject the involvement of foreign investors in this exploitative economic system. To call upon foreign investors to disengage themselves from this white-controlled exploitative system.

The "progressive force" argument of the corporations ignores the level of brutality and oppression in South Africa today with their involvement. Further,
it assumes that the non-white population is incapable of providing for themselves in an equitable situation.

If foreign investors withdrew immediately, black unemployment will rise at first. But conditions are already so bad that some cannot conceive of life's being worse than it is now. Due in part to the capital intensity program of the South African government, black unemployment is already on the rise and that is not likely to drop with more high technology, investment by foreigners, requiring minimal labor.

Furthermore, it is unlikely that the system of apartheid will end in non-violent fashion, unless the whites are forced to end it. Apartheid exists because it is profitable to whites. A destabilized economy may force them to change their ways because it will be to their advantage to do so. If this is not the case, a destabilized economy will give the independence movements a better chance to succeed.

**QUESTION 8: I UNDERSTAND THE EFFECT OF CORPORATIONS PULLING OUT OF SOUTH AFRICA. BUT WHAT IS THE RELATIONSHIP BETWEEN MY INSTITUTION AND THE CORPORATIONS?**

Corporations do what is profitable with little regard as to whom they might hurt by their actions. The key to getting a corporation to leave South Africa is to hit them financially. As the situation in South Africa becomes more explosive, the country will constitute a higher risk for investors. This will be one reason for a company to pull out. If corporations see that many institutions with large and small portfolios are divesting, they will conclude that the investment climate could be affected and that eventually the market value of their shares will decline. If the companies cannot attract investors, they will not have the funds they need to grow and increase earnings, and they will have to consider what actions will change that situation.

In the past, many institutions have been vocal in opposition to certain policies but have overlooked their own complicity in these actions through their investments. In particular, some churches, unions, and universities have shown a disregard for social issues by voting their proxies with management on such issues at annual shareholder meetings. Divestment strikes at these links between the heads of such institutions and those corporations and banks which are involved in South Africa. The vigor with which many managers and trustees oppose these suggestions indicates the strength of those links.

**QUESTION 9: WHERE DOES THE STRUGGLE STAND NOW?**

The campaign to encourage U.S. banks and corporations to divest in South Africa has gained wide support from colleges and universities, religious institutions, unions, and other groups. The National Conference of Christians and Jews and the National Council of Churches voted to withdraw their accounts from banks lending to South Africa. According to the Council on Economic Priorities, under the auspices of the Interfaith Center on Corporate Responsibility a record number of shareholder resolutions was submitted in 1978 at shareholder meetings. Other church related bodies are actively considering withdrawal of funds from banks and corporations.
Successful divestment campaigns have occurred at several campuses, and the
struggle has spread throughout the nation. In Wisconsin, the Attorney
General rendered a legal opinion that the University of Wisconsin's
investments in South Africa violate a state law prohibiting the university
from investing in any corporation that practices or condones discrimination
on the basis of race, religion, creed or sex. The University is now under
the legal obligation to divest from U.S. companies doing business in South
Africa. About $8 million is involved.

Actions involving unions have already been mentioned elsewhere. By April of
1978, the sum withdrawn from banks by churches, unions and universities was
estimated to total at least $35 million.

Other areas of pressure have also emerged. In the town of Davis, California,
a nonbinding referendum was passed calling for the removal of municipal funds
from banks doing business in South Africa. In February, 1978, the Michigan
Legislature passed a concurrent resolution (#467) urging that the Congress of
the United States and the President impose sanctions against the South
African government.

On related matters, a number of city councils including those in Atlanta,
Denver, Chicago, San Antonio and Detroit have passed resolutions urging
citizens not to purchase Krugerrands, the gold coins sold by the South
African government in an attempt to raise gold prices and thereby increase
revenues. In sports, demonstrations such as those protesting South African
participation in the 1978 Davis Cup tennis matches in Nashville continue to
strengthen anti-apartheid attitudes.

**QUESTION 10: I AM INTERESTED IN STARTING A DIVESTMENT CAMPAIGN AT MY
INSTITUTION. WHERE DO I BEGIN?**

The first place to begin is to find out what are your institutions' investments. Many institutions make this information public. Often one has
only to ask to obtain the portfolio or the pension fund list. But if this
is not the case with your institution, perhaps the first step is to put
pressure on those involved to make this information available, through any
institutional newsheets or the the local press. In the case of universities,
there is a good source in existence which may be of help. The Vicker's
Guide to College Endowment Portfolios lists the entire stock portfolios of
many American colleges and universities. Most churches, unions and civil
rights organizations are more open about their portfolios.

The next step is to find out which corporations in which your institutions
have invested are involved with South Africa. In New York City, this information
may be obtained from the American Committee on Africa and the Interfaith Center
on Corporate Responsibility. The 1978 Clark report to the U.S. Senate also
lists these corporations. Although we argue that all investments in all corpo-
trations involved in South Africa should be withdrawn, many interested groups
have found it more practical to try to isolate a limited number of corporations
and banks so that they can be made targets. The idea is to concentrate the
divestments so that the impact is greater. This more limited approach also
has the virtue of undercutting the argument that divestment in corporations
with ties to South Africa leaves one little else in which to invest.
Each group must decide for itself with corporations to make targets. But the Interfaith Center on Corporate Responsibility has suggested three criteria for deciding which corporations to focus on: their size in South Africa; their strategic value there; and their labor practices. Their suggested list of key companies is reproduced below:

<table>
<thead>
<tr>
<th>CORPORATIONS</th>
<th>REASON FOR TARGETING</th>
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<tbody>
<tr>
<td>Caltex, Mobile, Exxon, Texaco, and Standard Oil of California.</td>
<td>Supply to South Africa the vital oil which it cannot produce domestically.</td>
</tr>
<tr>
<td>General Motors and Ford</td>
<td>Control almost 50% of the local market in South Africa; provide vehicles for army and police.</td>
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<tr>
<td>Firestone and Goodyear</td>
<td>Produce rubber products essential to the transportation industry, as well as industry in general.</td>
</tr>
<tr>
<td>Union Carbide, Newmont Mining, Phelps Dodge, Kennecott</td>
<td>Particularly involved in strategic metals; black miners are notoriously underpaid.</td>
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<tr>
<td>IBM, Control Data, Burroughs, General Electric</td>
<td>The technology of such firms is vital in keeping the South African economy going.</td>
</tr>
<tr>
<td>John Deere, Caterpillar, International Harvester</td>
<td>Capital intensive and important in construction and agribusiness.</td>
</tr>
<tr>
<td>Bank of America, Citibank, Chase Manhattan, Manufacturers Hanover, Morgan Guaranty, Chemical Continental Illinois, Bankers Trust, First National Bank of Chicago, Security Pacific</td>
<td>These banks have extended the greatest amount in loans to South Africa as of late 1976.</td>
</tr>
</tbody>
</table>

This list covers only 30 companies and there are over 350 involved in South Africa. Check out your organization's investments against this list and others available and then decide which tactic to pursue. Once this information is secured, often the best course of action to begin a divestment campaign is to start a petition drive. Petitions can be useful in several ways. First, they can be used to demonstrate the support that exists for the cause. Occasionally, this alone can be persuasive in getting the organization's administrators to divest. Also, petitions are useful educational tools. Asking someone to sign a petition is a first step in a dialogue concerning the issue. Answering a person's doubt about signing a petition will result in an opportunity to demonstrate the worthiness of the cause. Much initial support, which is essential to a good campaign, can be obtained in this manner.

The next steps depend upon the situation at your institution and what kind of support you have received.

August, 1978