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HAROLD T. SHAPIRO
President

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Regent Deane Baker
4944 Scio Church Road
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Dear Deane:

This letter began as a memorandum to my own file. It was a personal exercise to help me carefully think through the issue of divestment with respect to South Africa. I share it with you in the hope that it might be a little help in assisting us in developing a policy that will best serve the long-run interests of The University of Michigan.

In the past week or ten days I have devoted a good deal of time to thinking through what actions, if any, a university ought to take in reference to its equity investments in corporations with business operations in South Africa. I must confess that the last time I undertook such a careful, personal review was in 1977-78. I have read the reports of many universities (Harvard, Yale, Cornell, Princeton, etc.) on this issue, as well as a number of books and reports sponsored by organizations of all kinds (churches, trade unions, political interest groups, etc.). Perhaps the single most useful publication, in terms of background material, was the Report of the Study Commission on U.S. Policy Toward Southern Africa. This report was published in 1981 under the title South Africa: Time Running Out. As you may know, this study was financed by the Rockefeller Foundation and headed by Franklin A. Thomas, President of the Ford Foundation. Also quite helpful, as a summary of current events, was the Investor Responsibility Research Center Inc. (IRRC) Proxy Issues Report, issued February 24, 1983.

I have developed no final wisdom on the issue of appropriate University action with respect to divestment. I have only concluded that well-informed, thoughtful, and socially concerned individuals have very different views on whether a U.S. presence--in the form of operating companies in South Africa--is, on balance, a positive or negative influence for the socio-political change which must come. We cannot tell whether our staying or withdrawing will eventually prove most effective in bringing an end to apartheid. The only conclusion I have reached is that I disagree with those on either side who believe there is no room for doubt regarding the most appropriate policy for us to pursue.

There are, however, a number of propositions or "statements" that find broad (sometimes universal) support among thoughtful observers on all sides of this issue. These propositions help identify issues, but do not necessarily indicate just which one of the difficult choices ought to be selected. Nevertheless, I thought it might be helpful to list some of them:

- (1) Responsible people everywhere deplore the reprehensible nature of apartheid. Although repression of various kinds exists elsewhere, there are especially abhorrent characteristics of the institutionalized exploitation and racism that are blatantly enforced on a massive scale by this official policy.
- (2) Concerns with respect to apartheid are especially poignant for Americans. We have a long history of conflict and accommodation on racial and ethnic matters and have become much more of a multi-racial and multi-ethnic society than most other nations. Although inequalities, prejudice and other grievances continue to exist here, significant progress has been made. For us, not only human rights in general, but racial/ethnic relations have a special meaning.
- (3) U.S. corporations have moral and social responsibilities that sometimes transcend more traditional objectives. In particular, U.S. companies operating in South Africa should demonstrate, in various ways, that they will not stay for profit alone and that they cannot remain if positive social change (as opposed to positive rhetoric) does not manifest itself.
- (4) The Sullivan principles are not, in and of themselves, likely to play a major role in ending apartheid. This would be true even if all American companies operating in South Africa supported their implementation fully. There is, however, strong disagreement as to whether the presence of U.S. companies operating within the Sullivan framework serves the interests of the apartheid regime, or are a force for positive social change.
- (5) It is appropriate for shareholders of American corporations doing business in South Africa to express their concern for the policies and behavior of their representatives in South Africa.
- (6) For various reasons, the role of a university as shareholder is more complex. These reasons include the following:
 - In its role as shareholder, the university often acts as a fiduciary with certain specific legal responsibilities.
 - It is difficult for the university to protect its own freedom from political influences if—as an institution—it plays an active role with respect to external social and political issues.
 - Although there may be a strong presumption against a university—as an institution—playing an active role with respect to external social and political issues, this presumption does not exempt the university from certain imperatives of moral responsibility.

- The university can be a powerful instrument of social change, but it can only remain one so long as this power is exercised through individuals and ideas. Otherwise, attempts to exercise such power can work to undermine the longer-term credibility of the institution as a source of new initiatives. There are always groups who want to use the university's accumulated capital and authority for their current purposes. A university must be concerned, however, about its long-term vitality which is dependent on preserving its status as an independent center of creative new ideas.
 - Yet in contemporary America the ideal of the university as a kind of cloister in the larger society is not attainable. American universities do have ethical responsibilities which affect not only their internal operations, but, in compelling cases, their activities as a shareholder. With respect to investments, a policy which maximizes income without allowing for any social or moral concerns is unacceptable to most institutions of higher education, public or private, in this country.
 - A vibrant university is a community of many interests and estates. We must continue to exhibit tolerance towards the expression of different views and perhaps a certain caution and restraint as befits an institution with a long history of sheltering both popular and unpopular ideas.
 - A university's actions as a shareholder, however well-motivated, might, in some cases (e.g., divestment), undermine its capacity to provide resources for the pursuit of other highly worthy aims. It is not a simple choice between high moral principle and the pursuit of economic gain. The university is a non-profit institution and all of its resources provide a means to support education and research.
- (7) Although it may appear to release a shareholder from certain moral responsibilities, the one-time act of divestment does not guarantee any "moral purity" for U.S. investors: at best, it is a very partial severing of ties with apartheid. Six thousand U.S. corporations have direct business contacts with South Africa and countless more have secondary involvement.
- (8) In purely economic terms, the act of divestment cannot have a beneficial impact on the equities of corporations involved. Of course, divestment need not be forever. A shareholder can reserve the right to reacquire stock at any time.

- (9) Many observers feel that, independent of all other consequences, the act of divestment may help the foes of apartheid in allowing them to draw some hope from our demonstrated concern. Others feel that our withdrawal through divestment would have the opposite effect. Needless to say, there are many alternative initiatives available to express genuine concern.
- (10) For a public university in Michigan, there are additional considerations:
- There is now a state law which requires (asks?) all the public universities to divest their holdings in companies doing business in South Africa. Although this law may be unconstitutional, it was passed by large majorities in the Senate and the House.
 - Independent of the issue of divestment itself, this new state law threatens, to some extent, the constitutional autonomy that has served us so well over the last century.
 - Divestment would not allow us to hold equity positions in the major Michigan corporations (e.g., GM, Dow, Ford, Kellogg, Upjohn, etc.) which currently support many important activities at the University and throughout the state.
- (11) With particular respect to The University of Michigan, failure to divest might alienate important components of our own academic community. The Senate Assembly has voted overwhelmingly for divestment, although the lack of any significant debate leaves their reasoning quite hidden from view. Further, most minority staff and many (some?) students favor divestment. On the other hand, the University community seems to fully expect the administration and Regents to make up for any risks that might be incurred.

The above propositions are either clear matters of fact or broadly supported by many thoughtful people on all sides of the divestment issue. Unfortunately, they do not clearly indicate, in my opinion, a clear course of action on the divestment issue. Protecting The University of Michigan's long-term interests will require a wise and careful balancing of these and other concerns.

Sincerely,



Harold T. Shapiro

cw

bc: Executive Officers ✓
Norman G. Herbert

Note: Original letter sent to each Regent.