BUSINESS DAY (Late Final)
11 Sep 2014, p.11

Economy Loane Sharp

Privatisation is key to real economic transformation

WE NEED to resurrect an old but stunningly simple idea in SA — privatisation. Privatisation, involving a genuine transfer of public assets to the general population, could create a real sense of participation and inclusion in the economy.

It would, instantaneously, propel working-class black South Africans into the middle class, short-circuiting a process that otherwise would undoubtedly occur but take the better part of a century. Apart from granting leaseholders of government-built homes full freehold title to their properties, as the Free Market Foundation has long advocated, nothing has the potential to empower blacks more than privatisation.

Privatisation is not an untested idea. SA's self-proclaimed peers — Brazil, Russia, India and China — have been pursuing many and varied paths toward private ownership, control and influence over state-owned enterprises and government-provided services for at least 25 years. The path to privatisation has been difficult, but no one seriously doubts the extraordinary positive effect market competition has had on economic growth, poverty and inequality in these and other countries.

Privatisation is an attractive option for SA, if only because the government's ability to perform even simple functions is compromised. Cadre deployment, public service unionisation, political and regulatory capture, and outright corruption have led to unbridled chaos, not only in the state-owned enterprises usually thought to be candidates for privatisation (Eskom, Transnet, Telkom, the South African Post Office, the South African Broadcasting Corporation etc), but also in public services municipal and other spheres of government provide.

In any event, there is in SA a kind of de facto privatisation going on. There are now nearly double the number of private security guards as policemen on the beat. The gradual but total collapse of state-operated railways has led to the spontaneous emergence of the flourishing road freight industry. The private healthcare sector, with a fraction of the resources, serves about the same number of people as the government healthcare sector every year, not to mention private healthcare's vastly superior outcomes.

At any point in time 15% of municipal districts are in a state of fierce service delivery protest, and ratepayers' associations are taking on greater and greater responsibility for elementary municipal functions. Enrolments at low-fee private schools are growing steadily, whereas government schools are closing down across the country.

Naturally, there are many groups that oppose privatisation, and it is instructive to examine their vested interests in turn. Public servants are the noisiest group of vested interests because they are heavily unionised and easily mobilised: 81% of SA's public servants are unionised and there are now more union members in the public sector than in the entire private sector. The government has been captured by the interests of trade union members, who represent just 24% (excluding the public service, just 12%) of the national workforce.

Protection against labour market competition for 114,000 Eskom, Telkom and Transnet employees occurs at the expense of 11-million electrified households, 4.4-million telephone subscribers and 3.6-million passengers and freight customers, who pay more and receive poorer quality services as a result. High unionisation rates and extensive protections for 386,000 school teachers occur at the expense of 12.3-million pupils.

Unions' opposition to privatisation, in other words, is a concern about a loss of union members. Note, importantly, that the unions' concern here is not about job losses but about union membership. SA's two spectacularly successful privatisation experiences, Sasol and Iscor (the latter has since been divided between Arcelor-Mittal and Kumba Resources), have been job-neutral since privatisation, but they are also substantially less unionised. There are promising signs that the union movement is experiencing a crisis of relevance: membership is slowly but steadily declining worldwide, including in SA; and rivalry between unions (or in-fighting within unions) is weakening the cartel-like power of SA's trade unions significantly.

Politically connected elites are quieter (or even silent) about their vested interests, but they are no less dangerous to the public good. What is called "broad-based" black economic empowerment in SA has been anything but broad-based. A handful of rich people have ended up with the lion's share of publicly traded equity wealth.

However, one should not make too much of the elites, for two main reasons. First, politically connected elites do at least subscribe to a predictable economic calculus, namely that of self-interest. In other words, it is usually easy to understand and reliably predict a businessman's vested interests based on the well-understood arithmetic of the profit motive.

> **"It is an unguarded secret that the government's procurement departments are 'open for business'**

Second, the elites are small in the broader scheme of things. The 10 richest black South Africans collectively own the equivalent of just 3% of the total amount invested for the pensions of 3-million public servants, 82% of whom are black.

Politicians possess vested interests that are difficult to gauge, as their true intentions cannot easily be discerned from their public statements. We do not have figures but it is reasonably certain that the most pervasive form of political and economic connectedness in SA involves senior politicians and functionaries in the public service.

It is an unguarded secret that the government's procurement departments are "open for business". Irregularities have been found in a staggering array of activities, ranging from the awarding of licences (such as fisheries) to the winning of contracts (such as nuclear components), the extension of leases (office space), breaches of contract (power generation), blunders in oversight (schoolbook deliveries) and flagrant violations of law (arms procurement).

Additionally, politicians and public servants have been implicated across the pay scales, from the lowliest public servant (immigration officers accepting bribes at border posts to admit undocumented migrants) to the most senior politician (persistent rumours about procurement-related corruption at the highest levels of the government). In other words, there are some significant hurdles to mount if privatisation does become a reality in SA.

Public servants might object, but their opposition could probably easily be quelled by an associated financial incentive. Politically connected elites might seek to benefit unduly, but it would be politically difficult for them to oppose a broad-based transfer of public assets to the general population.

Certainly, the real fear would involve politicians seeking to capture the privatisation process for themselves, as occurred to some extent in the early days of privatisation in Russia and, indeed, as occurs widely in South African government circles today.

A sound and transparent privatisation process incorporating international precedents would need to be agreed and ratified by the courts.

Privatisation is not an end in itself, but rather a means to an end. It is also not an idea that can be forced onto an unwilling population. But there are few things that could boost the middle class more than privatisation of all state-owned enterprises and selected government-provided services.

■ *Sharp is an economist with the Free Market Foundation.*