

State Owned Enterprises model is dead, promises of reform are a farce

By Ghaleb Cachalia MP - DA Shadow Minister of Public Enterprises

The President has promised “a new era in the management of State-owned companies” and announced the establishment of the Presidential SOE Council which aims to provide political oversight and strategic management to reform, reposition and revitalise SOEs.

The fact is almost all SOEs are fully state-owned but loss-making companies struggling to balance broader public policy objectives with commercial viability.

Since they are largely operating in monopolistic markets, they function in an environment where market discipline is replaced by bureaucratic, regulatory and administrative scrutiny that in the past was susceptible to “capture” by interest groups.

Part of the SOE problem seems to have arisen from the existence of multiple objectives: commercial objectives vs broader developmental goals, and often competing objectives of different government departments and agencies.

What compounds the problem is that the system of SOE oversight is effectively run by civil servants who are by definition more vulnerable to direct political pressure and less inclined to be practical in addressing emerging problems; at the same time they are less accountable in their relatively protected positions and not incentivised to pursue stewardship performance for which they would be accountable.

The portfolio committee for Public Enterprises has been presented by the DPE with the blessing of its minister, as it does year after year, with a powerpoint overload of plans, promises and platitudes – none of which appear to understand that we are on the brink of economic and financial ruin.

State-owned enterprises (SOEs) are intended to play an important role in the South African economy and be a significant vehicle for achieving economic growth and poverty reduction. They are intended to address market failure and deliver key infrastructure services such as energy, transport, and water that allow the economy to grow while ensuring equity through access and quality of social services to all citizens.

The theory of the game is that through these initiatives, the Government’s goal is to ensure that SOEs deliver on broader developmental goals and that they support the transformation and competitiveness of the economy.

The reality is otherwise.

Before the Covid, more than 10 million people were unemployed. The average growth rate hovered between 1–3%. We are likely to see economic growth of 2.9% y/y in 2021 as it rebounds from the -7.3% y/y collapse of last year.

This muted recovery has been accompanied by an unsustainable expansion in government borrowings and a widening fiscal deficit – helped by the dollops dished out to flights of fancy like the new SAA and continued bailouts of other SOEs – that the death of Denel, the attenuation of Alexkor and the entropy of Eskom bears sad witness to.

Moreover, according to the 2020 edition of the Economic Freedom of the World Report South Africa ranked 90th in the world, after a high of 58th in 2000. After years of dedication to state controls and ‘state-led growth’ the much-promised prosperity has not been realised.

And there is little hope of realising the requisite levels of growth if minister Gordhan, continues to be locked in an ideological straightjacket that balks at allowing the private sector to address patent market failure in the state sector.

He believes well-run SOEs are important because the free market – in his words – “is not a panacea for resolving economic and institutional challenges.”

What he doesn’t understand is that vested interests of government prevent SOEs from responding to market forces like supply and demand as nimbly as companies in the private sector – never mind systemically entrenching cadre deployment and avenues for corruption to flourish... and so, like Sisyphus in Greek mythology, minister Gordhan is condemned to roll a rock up to the top of a mountain, only to have the rock roll back down to the bottom every time he reaches the top.

Year in and year out, predating Covid, we are presented at best with a set of incentive setting box-ticking exercises; at worst, the incentives will always encourage corruption, because of the political connections and potential wealth linked to managing an SOE. And, ultimately, those South Africans who most need basic infrastructure services are left literally in the dark.

When Eskom fails, a whole country sits without electricity – entirely attributable to government protecting its monopolistic position. When a business fails – as it should if it cannot adequately serve customer’s needs – it only affects the customers of that business, who will then likely flock to a better competitor.

If Minister Gordhan and others in government are serious about improving people’s lives, they will implement the pro-economic freedom reforms the country desperately needs.

As Chrish Hattingh of the Free Market foundation says, economic freedom both ensures greater capital formation and investment – creating more jobs – and encourages an environment in which greater competition lowers the prices of goods and improves the quality of services. Only in freer markets can more people create wealth, thus they are better for poorer people than central-command economies

Even the Cuban and Venezuelan governments are pursuing more open economic policies “to rescue their moribund economies” – thereby breaking with the Sisyphian madness that the minister is locked into.

So when will this government realise the failings of its chosen ideology?

Not while this government – new dawn notwithstanding – and not knowing if it is Arthur or Martha when it comes to cogent economic policy – continues to have its way.

Not while this government and the party that holds sway, fights amongst its own over the spoils of an increasingly meagre carcass.

Not while the elites value Bentleys for themselves over bread for the masses.

Not while a mindset that produced Trabants and sluggish tractors in East Germany to drive its failing economy remain the loadstar of some quaint notion of progress.

Not while the prime purpose is the service of a party over people and to reward this or that faction depending on who wins the unseemly battle for bits of an ever shrinking pie.

In the interim, it cannot be business as usual, with copious reports, even longer presentations and the absence of decisive action.

Time is running out... #TimeForChange.