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NEVA MAKGETLA: State-owned companies cost a fortune

But Thabo Bester scandal shows private provision of basic services can also be problematic

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A sign at Eskom head offices at Megawatt Park, Johannesburg. Picture: FREDDY MAVUNDA

SA has entered a daunting fiscal winter, putting pressure on public services across the board. Yet the latest national budget provides R264bn over the next three years to relieve Eskom's debt, after bailouts in 2022 to Eskom, Denel, Transnet and SAA totalling more than R30bn.

Meanwhile, the melodrama of Thabo Bester's escape shows, once again, that private provision of basic services can also be problematic — a lesson we already learnt from, among others, reliance on taxis for commuter transport and the soaring cost of medical aid.

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The government's main response to the crisis at the state-owned companies (SOCs) has been formulaic, centred on the belief that publicly owned companies can turn a profit, or at least break even, based on their own revenues. That approach presumes SOCs could operate without losses if only we could find better management and incentives.

Proponents of privatisation have an equally magical proposition: bring in private owners and efficiency will automatically ensue. Yet markets only meet social needs when they have multiple competing producers, and consumers have both good information and resources to pay for what they need. When it comes to basic services, SA falls short on all three counts.

Ideological responses downplay the roots of the crisis of core services in SA. The real challenge is to define and resource the measures required for inclusive and equitable growth. In that context, working-class communities and new industries need vastly improved services to redress the huge inequities in public investment under apartheid. To build new economic opportunities requires enormous new investments, from education and healthcare to electricity, transport and broadband. That strategy may seem obvious, but it faces tough practical obstacles.

To start with, SA's history of deprivation and discrimination means most voters cannot afford to pay for the services they need, whether through tariffs or taxes. Yet both SOCs and private providers are expected to cover their costs. That formula inevitably leaves the poorest households and emerging businesses with inadequate services, making it far harder for them to succeed economically. Meanwhile, the rich maintain world-class enclaves based on past state investment (for instance in schools, roads and water in historically privileged areas) or high-cost private suppliers (as with health care and security).

Similar obstacles undermine support for new production clusters and value chains. By definition, emerging producers cannot easily pay for the services they need, whether freight, reliable electricity, water or broadband. Successful industrialisation requires that public providers gamble on their future by subsidising these inputs, sometimes for decades. In these circumstances, it is not surprising that both the main state infrastructure companies and the private sector continue to prioritise their more established customers, above all the mines, car assembly and prosperous commercial sites.

In short, SA's harsh history of inequality and mining dependency means basic infrastructure and social services can support economic reconstruction only if they get subsidies for working-class customers and emerging enterprises. That in turn necessitates some public funding, whether the service providers are public or private. Bailouts are systemic, not a failure of will or management. However, unless they are tied to well-defined, sustainable and consistent developmental outcomes, they will inevitably lead to rent-seeking by both public and private enterprises.

From this standpoint, the problem has been the visible failure first to define and cost the services required for reconstruction, and then to allocate resources systematically to meet those needs. For the SOCs, clear-cut objectives

with dedicated funding should replace crisis-driven bailouts. If the government cannot enforce socioeconomic aims for an SOC (think SAA, Alexkor and Denel), then it should probably sell it off.

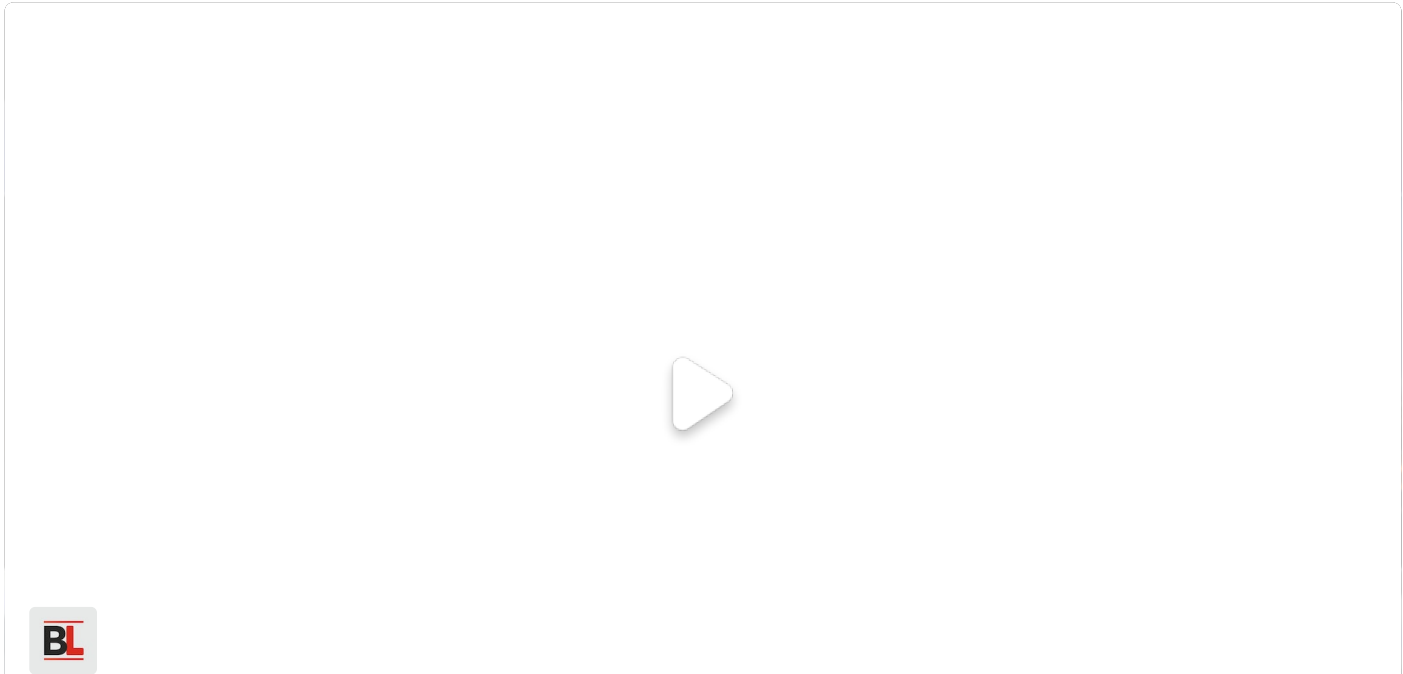
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For other SOCs, decisions on privatisation should be based not on whether they require state funding, but on whether private producers would do a better job in meeting national needs. Simply replacing state monopolies with private ones pretty much guarantees worse outcomes.

- *Makgetla is a senior researcher with Trade & Industrial Policy Strategies.*

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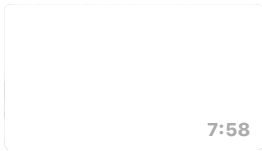


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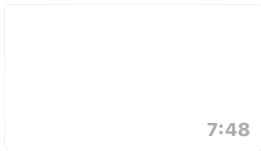
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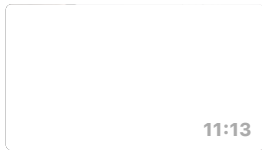


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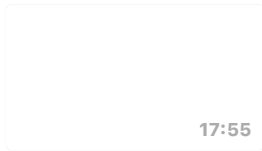


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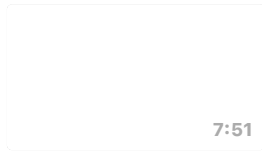


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