

Press Release

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South African Institute of Race Relations
The power of ideas

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Give the job to real capitalists, not pseudo-capitalists

South Africa's major state-owned companies should be removed from the control of "pseudo-capitalists" and sold to real ones. This is one of the key arguments put forward by the Institute of Race Relations (IRR) in a paper entitled *Privatisation or Bust* released in Johannesburg today.

Pointing to some of the huge losses at state-owned companies such as South African Airways (SAA), the Central Energy Fund, and Petro SA, the paper argues that some of these companies are run by "pseudo-capitalists who have neither the expertise nor the money to make successes of them. Instead, they operate on the assumption that the government will bail them out if they run into losses. In other words, they are pursuing grandiose ambitions while risking taxpayers' money rather than their own. Alternatively, they rely on sympathetic regulators to pass on the costs of their ambitions and/or incompetence to consumers."

Written by a research fellow at the IRR, John Kane-Berman, the paper reports how regulators have granted exorbitant tariff increases not only to Eskom but also to the Airports Company of South Africa.

He quotes Bongani Maseko, chief executive of the airports company, as having said that "there is nothing to stop us replicating the Sandton Square concept at O R Tambo".

"There is nothing wrong with such adventurous capitalism," says Kane-Berman. "But it should be done by real capitalists, not by governments. Airport privatisations in many other countries have been successful, so South Africa's airports company should also be privatised. To ensure maximum competition, however, the different major airports should be sold to different companies. When British airports were privatised by Margaret Thatcher in the 1980s, they were initially sold to a single company. The mistake was later rectified and the monopoly was broken up."

Whether they were real capitalists operating in the private sector, or pseudo-capitalists operating in the public sector, capitalists would always seek to maximise profits and minimise competition, Kane Berman says. It was therefore essential to appoint independent and impartial regulators to protect the public against monopolistic price increases.

"However," he says, "the best protection is competition. Privatisation should always seek to introduce as much competition as possible. South Africa's huge state companies should not only be broken up, but also opened up for sale to foreign as well as local investors."

Ends.
