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Privatisation or bust

Well-run companies are seldom in the news. They satisfy the needs of their customers, making profits as a result. Some of South Africa's biggest state-owned companies are seldom out of the news, however. This paper will explain why, looking at financial, governance, and political problems. It will then discuss the government's proposals to deal with these problems, juxtaposing these with proposals by the Institute of Race Relations (IRR) itself. Experience in other countries and lessons to be learnt will be analysed. We will then put forward a set of proposals to privatise some of South Africa's major companies. Time and space constraints prevent dealing with all the problem companies (for example, the SABC). But the list put forward is enough to get on with. Finally, we will deal with some of the objections to privatisation and reiterate its numerous advantages.

INTRODUCTION

Hardly a day goes past without yet another report of financial crisis, corruption, bad governance, political interference, or chaos, or all five, at one or another of South Africa's state-owned enterprises (SOEs). Some of the biggest companies, such as South African Airways (SAA) and Eskom, would not survive without government guarantees enabling them to borrow money. These guarantees, however, pose a risk to the government's own financial position, which is being closely monitored by international credit ratings agencies. Unless the government's own indebtedness can be reduced, it faces the risk of having its credit rating downgraded to "sub-investment", or "junk", status. The resulting increase in borrowing costs would squeeze other items in the budget, 60% of which is devoted to social spending.

Key people in the government, among them the presi-

dent, Jacob Zuma, and the minister of finance, Pravin Gordhan, have spoken about the necessity of fixing state-owned companies. When he opened Parliament in February this year, the former said they had to be "financially sound" and "properly governed and managed". The latter told journalists shortly before his budget speech later in the month that state-owned companies were no longer "sacrosanct" and that the government was "willing to take a tough look" at each of them. The word "bailout" had to disappear from the country's vocabulary. Nearly nine months later, however, there is little clarity on what the government actually plans to do about its problem companies, except that President Zuma visited SAA and promised that it would never be privatised.

Privatisation was in fact on the government's agenda soon after the ANC came to power in 1994.

Privatisation was in fact on the government's agenda soon after the African National Congress (ANC) came to power in 1994. The total or partial sale of major state assets – sometimes referred to as "restructuring" rather than "privatisation" – was envisaged to ward off looming financial crises. The rapid restructuring of Eskom, Transnet, Telkom, and Denel was envisaged. Valued at R150 billion, these four companies accounted for more than 90% of the assets falling under the state. Minority stakes in SAA and the Airports Company of South Africa were sold to foreign companies (although later bought back). Almost a third of Telkom, which at one stage had been a state-owned telephone monopoly, was also sold off, along with various smaller "non-core" assets, such as the Aventura holiday resorts. Private-sector partners were brought into some of the subsidiaries of Denel, the state-owned armaments manufacturer. At one stage the sale of about a third of Eskom's electricity generating capacity was planned. But the partial privatisation of Eskom never got off the ground. Nor did that of Transnet, the railway, ports, and pipelines monopoly.

The then minister of public enterprises, Jeff Radebe, envisaged that the sale of state assets would raise R40 billion for the National Treasury by 2004. But the process lost credibility as it dragged on for too long. In the end privatisation was effectively abandoned more than ten years ago as confusion, policy disputes, and political opposition mounted. Privatisation was also superseded by the government's commitment to a "developmental state" in which state companies are expected to play an important role.

Today the word "privatisation" is barely uttered except by those who promise that they will never allow it. Most business organisations support the National Development Plan (NDP) adopted by the ANC and the government four years ago, which involves state capitalism rather than privatisation. Some economists say that companies such as Eskom are in such a mess that no one would buy them anyway. Others say that it would be cheaper to start a new airline than to buy a failing one such as SAA.

Today, however, the word "privatisation" is barely uttered – except by those who promise that they will never allow it.

This paper will nevertheless argue that privatisation is the only real answer for some of the problem companies. The political obstacles are, of course, formidable. The economic difficulties in some cases are daunting. But the alternative to privatisation is continued poor governance, crony capitalism, never-ending rises in costs to both taxpayers and consumers,

and continued delay in meeting the country's need to upgrade and expand its economic infrastructure. While not ignoring some of the problems that arose from privatisation in other countries, we will argue that experience elsewhere shows that privatisation, properly executed, could be hugely beneficial to South Africa.

THE PROBLEMS WITH STATE-OWNED ENTERPRISES

Definitions

The terms "parastatal", "state-owned entities", "state-owned enterprises", and "state-owned companies" are often used interchangeably, both in official documents and in the press.

South Africa has 715 SOEs, including Eskom, Transnet, SAA, the South African Post Office, and the Central Energy Fund.

Further to confuse matters, some of them report to a "department of public enterprises". A "presidential review committee on state-owned entities" established in 2010 reported that South Africa was "flooded with terminologies" referring to them. There were, it said, 715 such entities in the country, of which 21 were commercial. The *Budget Review* published in February 2016 listed "state-owned companies" as including Eskom, the Central Energy Fund, Transnet, SAA, the South African Post Office, the Passenger Rail Agency of South Africa (Prasa), the South African National Roads Agency (Sanral), and the Trans-Caledon Tunnel Authority. The Public Finance Management Act includes some but not all of these on a list of 21 "major public entities" which also includes Denel, Telkom, the SABC, the Industrial Development Corporation (IDC), the Airports Company of South Africa, and Alexkor, a diamond mining company. Wherever an official document specifies that it is referring only to state-owned companies, this paper will follow that nomenclature. Otherwise it will use the looser term "SOE", meaning "state-owned enterprises", which is itself the most widely used term and abbreviation.

Financial

There are essentially three financial problems with SOEs. The first is that their overall return on equity is negative. The second is that their losses are a risk to public finance. The third is that SOEs with fragile balance sheets have difficulty raising the money to invest in the economic infrastructure the country needs.

Government guarantees for SOEs already stand at R467 billion, which puts "pressure on the sovereign rating".

According to the Treasury, state-owned companies (SOCs) had a net asset value in the 2014/15 financial year of R305 billion. However, their return on equity has dropped from 7.5% in 2011/13 to minus 2.9% in 2014/2015. Most of the decline is the result of large losses at the Central Energy Fund and SAA. These returns, the Treasury said, were "dismal" when compared with companies in the private sector. Moreover, government guarantees to SOEs (standing at R467 billion), had reached the upper limit of what could be considered prudent in the context of total government debt and low economic growth. These guarantees amounted to 11.5% of GDP and were a "source of pressure on the sovereign rating". Although many SOEs were solvent and performing well, others posed "significant risks" to public finances. Mcebisi Jonas, who as deputy minister of finance is *ex officio* chairman of the Public Investment Corporation (PIC), warned that the PIC would not be able to continue investing in the same manner as in

the past given the "huge" problems in several SOEs.

Foreign agencies have echoed these concerns. The International Monetary Fund warned in July 2016 that support for money-losing SOEs was a growing drain on government coffers. Standard and Poor's, one of the three international ratings agencies reporting regularly on South Africa, warned in January 2016 that it could lower the country's credit rating if SOEs required higher government support than was currently expected. This would push up the government's – and everyone else's – borrowing costs.

At the end of August, Andrew Canter, chief information officer at Futuregrowth Asset Management, the country's largest private fixed-income money manager, said it would make no more loans to various major state companies as it was concerned about their "governance and independence". Futuregrowth had a lot of state company debt and was busy evaluating a loan of an additional R1.8 billion, but its credit committee was unable to take a five- to ten-year view on these companies. "It is difficult to make reasoned and defensible decisions to continue providing [state companies] with additional funding using clients' money." Referring to "possible machinations of patronage networks", Futuregrowth said it would ask state companies to provide information about the independence of their boards, investment and credit committees, and procurement processes. The six companies in question were Eskom, Transnet, Sanral, the IDC, the Land and Agricultural Development Bank of South Africa, and the Development Bank of Southern Africa. (After being publicly scolded by Old Mutual, Futuregrowth's parent company, Mr Canter apologised for making a public announcement before "engaging" directly with the firms, but he did not retract his comments.)

The IMF warned in July 2016 that support for money-losing SOEs was a growing drain on government coffers.

Soon after the Futuregrowth statement, Denmark's Jyske Bank said it would no longer lend to South African state companies either. Other fund managers, including Allan Gray, Sasfin, and Abax Investments, echoed these concerns. Eskom replied that it would "go elsewhere" for money. It said the execution of its "funding plan of R327 billion going forward does not rely on Futuregrowth's participation". The bonds of Eskom would continue to be attractive as long as the organisation was stable and "its debts are guaranteed by the government".

Poor SOE governance is linked to ANC policies on affirmative action, plus cadre deployment to these "centres of power".

Governance

The financial problems at SOEs are partly a function of poor governance. At one stage ministers in charge of public enterprises, such as Barbara Hogan, wanted them to have independent boards and professional managements. But such an approach does not fit key aspects of ANC policy, including affirmative action and the deployment of party loyalists to capture all centres of power. Independent directors drawn from the private sector who have served on some of the boards of SOEs have complained about constant interference from ANC headquarters at Luthuli House. Ministers have also frequently interfered with the governance of SOEs. Independent directors failing to comply with particular requirements of politicians have been dismissed and replaced. People with dubious track records and/or question-marks over their integrity have been put on to

boards. People dismissed from top jobs for misconduct have been hired back. The chairman of SAA is widely believed to owe her recent re-appointment to that job to the personal favour of Mr Zuma.

In the words of a well-known economist in the private sector, Iraj Abedian, in May 2016, "It is common knowledge that the SOEs have been the playground of patrimonial political leadership, crony capitalism, and manifest rent-seeking over the past decade. As a result, their organisational integrity has been severely compromised, their balance sheets hollowed out, and their corporate brands largely destroyed". Paul Harris, a leading banker, said in April 2015 that "the number of chief executive officers on suspension, fighting to be reinstated, or in an acting capacity would be laughable if it were not so tragic." Another businessman, Moeletsi Mbeki, said that SOEs were so badly managed by political appointees that "it does not matter how much money you put into them, they will not change". They were "a huge strain on the tax-payer and therefore on the welfare of the people of South Africa, and they enrich a few elites – the chief executives, the board members, and politicians". The deputy public protector, Kevin Malunga, said in November 2015 that "state-owned entities are a cesspit of disgrace".

The deputy public protector, Kevin Malunga, stated late last year that "state-owned entities are a cesspit of disgrace".

A former finance minister, Trevor Manuel, said in July 2015 that it was a tragedy that the level of management at Eskom and other SOEs had deteriorated. One of Mr Manuel's successors as finance minister, Pravin Gordhan, was more forthright. Speaking after delivering his budget in February 2016, he suggested that SOEs had been driven by self-interest, and that they had been "captured" to the extent that control mechanisms had been lost. "Those driving a particular deal had virtually no resistance, no accountability, no transparency, and no oversight over what actually happens, and it is a potential disaster". The Treasury was not a piggy bank for SOEs to dip into, he said.

Finance minister Pravin Gordhan warned in February 2016 that the Treasury is not a "piggy bank" for SOEs to dip into.

Personnel

Many SOEs, as is the case with government departments, have zealously applied affirmative action policies in making staff appointments. Eskom at one stage put a ban on the hiring of whites, and then of males. Tembinkosi Bonakele, a member of the Competition Commission, said in 2015 that the sorry state of SOEs was driving technocrats away from SAA, the SABC, and the Post Office in droves. By the time governance problems were solved there might be too few people left to rebuild these SOEs. "So the incompetent people running parastatals are not just annoying because they are clueless, but because we might never be able to rebuild these parastatals."

Mixed mandates

According to the National Development Plan (NDP) adopted by the ANC in September 2012, South Africa must become a "developmental state" able to "bring about rapid and sustainable transformation in [the] country's economic and/or social conditions through active, intensive,

and effective intervention in the structural causes of economic or social under-development". However, says the NDP, this agenda could fail because the state is incapable of implementing it. Economic infrastructure is "crumbling" and sometimes even "abysmal". Repairing and expanding it was expected to cost some R4 trillion over the next 15 years. SOEs are expected to play a major role in infrastructural development.

Getting their finances in order may be difficult if SOEs are also forced to comply with political decisions designed to bring about social objectives. SOEs are also often required to comply with increasingly exacting "transformation" objectives, including procurement of supplies from majority-owned black companies. One of the causes of the countrywide blackouts that started in 2008 was that Eskom redirected some of its contracts for coal to small black-owned companies unable to meet the demand. Some of these requirements are not necessarily laid down by the relevant department to SOEs, but adopted by them in accordance with the ANC's overall "transformation" agenda. SOEs (like many other companies) are also required to adopt increasingly onerous local content and racial procurement requirements.

SOEs must often also comply with "transformation" objectives, including procurement of supplies from black-owned companies.

In 2014, for example, the then minister of public enterprises, Malusi Gigaba, ordered SAA to withdraw its tender for 23 more fuel-efficient long-haul aircraft on the grounds that it did not contain sufficient elements of localisation. This year the airline called for bids for six short-haul aircraft but stipulated that preference would be given to local leasing companies that are 51% black-owned.

Some of the people running state-owned enterprises have interpreted their mandates extremely widely. The Petroleum, Oil and Gas Corporation of South Africa (Petro SA), which belongs to the state-owned Central Energy Fund, some years ago tried to buy Engen, a fuel refining and retailing company whose majority shareholder is Petronas of Malaysia. The deal fell through because Petro SA, which runs up colossal losses, did not have the money, but this did not stop Petro SA from putting in a bid in 2016 to buy a refinery, a lubricants plant, and 845 Caltex fuel stations in South Africa from the American oil giant Chevron.

This saga illustrates one of the problems with which some SOEs confront the country. Some of them are run by aspirant pseudo-capitalists with grandiose ambitions they have neither the competence nor the money to realise. But they pursue these ambitions in the apparent expectation that any losses can be off-loaded on to the taxpayer and/or the consumer – in the latter case with the connivance of regulators expected to acquiesce in exorbitant price increases.

Some SOEs are run by pseudo-capitalists with grandiose ambitions they have neither the competence nor the money to realise.

In some cases it is not clear exactly what, or whose, mandate is being implemented. Eskom's apparent determination to press ahead with a massive increase in its nuclear generating capacity seems to be partly, or even largely, rooted in Mr Zuma's personal preferences and those of some of his favoured business associates.

Another problem facing state companies is that they may be under pressure from the government to undertake expensive projects – such as the building of the King Shaka In-

ternational Airport north of Durban in time for the 2010 Soccer World Cup – but are then not provided with the necessary finance. This left the Airports Company of South Africa with huge debts that it has subsequently endeavoured to recover with exorbitant tariff increases.

Although SOEs are supposedly subject to their shareholder departments and to the Treasury, the secretary general of the ANC, Gwede Mantashe, said at the end of 2014 that the party would set up a committee to monitor their work and "engage where necessary". This is a case of far too many cooks, not all of them competent, spoiling the broth. In May this year, Cyril Ramaphosa, deputy president of both the ANC and the country, was reported to have told cabinet colleagues that all key appointments in SOEs should be done through the ANC's deployment committee.

The person of President Jacob Zuma looms large over SOEs – and also over finance ministers reluctant to authorise big spending by them.

Jacob Zuma

The person of President Jacob Zuma looms large over SOEs. In the words of a senior journalist, Donwald Pressly, "Zuma has begun to personify the looting of the state". Some of Mr Zuma's finance ministers have reportedly blocked some of his efforts to influence decisions with huge financial implications, leading to their dismissal. Towards the end of last year he suddenly dismissed Nhlanhla Nene as finance minister and replaced him with Des van Rooyen, who would presumably be more compliant. This caused such an adverse market reaction that intervention by business and some of Mr Zuma's own senior colleagues forced him to dismiss Mr Van Rooyen and recall the better qualified Pravin Gordhan to the post. Mr Gordhan had himself earlier been dismissed for reasons never stated but widely suspected to have arisen from his refusal to authorise expenditure at the behest of Mr Zuma. At the time this paper was being written, Mr Gordhan appeared to be under threat of being dismissed again following his refusal to obey a "request" to appear before the "Hawks", a unit of the South African Police Service officially known as the "Directorate for Priority Crime Investigation". There was, however, no legal basis for the "request", which a retired judge of the Constitutional Court, Johann Kriegler, described as a "smear," an "affront to the rule of law", and an attempt at the "persecution" and "public execution" of Mr Gordhan.

Capture of the Treasury is widely regarded as one of Mr Zuma's key objectives, supposedly impossible as long as Mr Gordhan is still there. After his summons by the Hawks, he is reported to have told his staff he was being persecuted for investigating irregular contracts with companies owned by the Gupta family, but that he would not back down even if it meant dying to save the country from the "thieves". Capture of the Treasury would enable Mr Zuma to exercise much greater control over the finances of SOEs. In the view of a former treasurer general of the ANC, Mathews Phosa, the agenda is to remove both Mr Gordhan and Mr Jonas, which would also give "the looters" – he did not name them – access to the resources of the PIC. The minister of finance, representing the government, is the sole shareholder in the PIC, which has R1.8 trillion in investments on behalf of the Government Employees Pension Fund. His deputy, Mr Jonas, chairs the PIC.

Capture of the Treasury would enable Mr Zuma to exercise much greater control over the finances of SOEs.

Mr Zuma's desire to retain – and indeed extend – personal control gives him a motive to resist reforms some of his cabinet colleagues may wish to introduce. But that very desire also strengthens the argument for putting the control of as many state companies as possible as far beyond the reach of politicians as possible. This is the best means of ensuring that such companies are put beyond the reach of people described by the Congress of South African Trade Unions (Cosatu) as the "looters, criminals, flatterers, patrons, factionalists, and hangers-on" who had captured the ANC. Even so, Cosatu opposes privatisation.

In February 2016 Mr Zuma said SOEs that were no longer relevant to the development agenda would be phased out.

SOLUTIONS

The government's proposals

The *Budget Review* published at the time of the finance minister's budget speech in February 2015 spoke of providing lifelines to SOEs by selling off non-strategic assets. It also spoke of creating opportunities for private sector investment in sectors dominated by SOEs. The deputy president, Cyril Ramaphosa, was appointed to head an inter-ministerial committee to implement the recommendations of the presidential review committee on state-owned entities, whose report had been accepted by the Cabinet in April 2013.

In his state-of-the-nation address in February 2016, Mr Zuma said SOEs had to be financially sound to enable them to contribute to the NDP. Companies no longer relevant to the development agenda would be phased out. In his budget speech shortly thereafter, Mr Gordhan said resources saved from entities to be phased out would be redirected to the balance sheets of state-owned companies that should grow. The possible merger of SAA and SA Express, a smaller state-owned airline, was being explored. He also spoke of "co-funding arrangements" between SOEs and other investors in infrastructure.

The 2016 *Budget Review* said that the government wanted more competition in well-regulated sectors, although many SOEs enjoyed a monopoly in their sectors. Allowing competition, it added, would improve efficiency while increasing investment levels, entrepreneurship, and employment.

At the beginning of the year Mr Gordhan had said that SOEs such as SAA "must stand on their own two feet". Instead of expecting "bailouts" – a word that should disappear from the vocabulary – they should be paying dividends to the government. This applied not only to SAA but to all state-owned companies. However, he cautioned, "I did not use the P-word". Speaking at a post-budget breakfast, he reiterated that "there is no privatisation of any kind". For SAA, for example, the government had mentioned a minority equity stake. "We are not compromising on state control or state ownership. Also, the private sector is not necessarily efficient."

Mr Gordhan added that SOEs such as SAA "must stand on their own two feet". Instead of expecting bailouts, they should be paying dividends to the government.

In March 2016 Mr Gordhan said South Africa had three months to convince ratings agencies and investors of its fiscal stability, and that concrete steps would be taken to boost economic growth and deal with problems in SOEs. The nine-point plan that the government

had adopted in February 2015 included as number eight "boosting the role of state-owned companies". Following a meeting of the ANC's national executive committee after the party's municipal election setbacks on 3rd August, Mr Mantashe said that the committee had "resolved to mandate government to take urgent steps to bring stability and policy certainty on state-owned companies such as SAA, the SABC, and Eskom".

In August 2016 Gwede Mantashe said the government needed urgently to "bring stability and policy certainty on SOEs such as SAA, the SABC, and Eskom".

Towards the end of August 2016 the Cabinet said that it would have finalised a new shareholder ownership model for such companies by the end of the year. The government also announced the establishment of a new "presidential coordinating council" that would give Mr Zuma "line of sight on strategic decisions and interventions" on SOEs.

This was immediately interpreted in the media as an attempt by Mr Zuma to consolidate his power over such companies. The interpretation was strengthened when the Hawks instructed Mr Gordhan to appear before them (see above). A statement by Solly Mapaila, second deputy general secretary of the South African Communist Party (SACP), expressed the views of many in political, media, and business circles. Mr Mapaila said Mr Gordhan "is seen as an impediment to the looting of state-owned enterprises". People linked to the president, among them the Gupta family, who had "captured" parts of the state, had found the Treasury to be a stumbling block. Mr Mapaila also claimed that the Hawks' move against Mr Gordhan had Mr Zuma's blessing.

Such was the level of suspicion that Jeff Radebe, minister in the Presidency responsible for planning, monitoring, and evaluation, felt it necessary to issue a statement that there was "nothing sinister" about the new council. Not long after this, on 9th September, Mr Ramaphosa said that a major announcement on the running of SOEs that would "make people happy" could be expected soon.

The IRR's proposals

The government's commitment to divesting itself of assets no longer regarded as necessary for development is a start – or rather a continuation – of divestments that have already taken place. But it does not go far enough. In the first place, the list of assets to be sold is not likely to be very large. Secondly, the proceeds of sales might be squandered if they are injected into failing assets – a case of throwing good money after bad. Bringing in minority shareholders from the private sector is likely to be difficult as long as state companies are badly managed, subject to political interference, and seen by politicians and some of their associates as sources of personal enrichment.

Bringing in private minority shareholders is likely to be difficult as long as SOEs are badly managed and subject to political interference.

Something far more ambitious is required. Essentially the state should divest itself of all assets that are not vital to its core functions. It should do so for a number of reasons. The first is to recapitalise state-owned companies that may need such recapitalisation before they can be sold, without any further calls upon the fiscus. The second is to pay off public debt. The

third is to turn companies that drain the fiscus into taxpayers contributing to it. The fourth is to make such companies accountable to shareholders and consumers rather than to politicians or government officials. The fifth is to subject such companies to the disciplines of the market, compelling them to become nimbler and more efficient.

The sixth is to introduce more competition and choice into the provision of services and so reduce costs to consumers and the inflation rate. The seventh is to stimulate innovation. The eighth is to transfer the costs of maintenance and expansion from taxpayers to shareholders. The ninth is to is to ensure a better allocation of scarce capital. The tenth is to attract more foreign direct investment into the country. The eleventh is to foster a more efficient economy with better infrastructure. The twelfth is to reduce the opportunities for capture by politicians and their associates seeking to use state companies for personal gain.

We need to turn SOEs that drain the fiscus into taxpayers which contribute to it. We also need to introduce more competition and choice to reduce costs.

These proposals are radically different from what the government is contemplating (even without the complicating factor of Mr Zuma). They involve extensive privatisation whereas the government is wedded to state capitalism, in which the state retains majority, or even 100%, ownership, and therefore control, of companies that in many other countries are part of the private sector and often listed on stock markets. Only financial necessity is causing the government to contemplate the sale of minority stakes in some state companies or even to dispose of "non-core" assets altogether. At the same time, however, it is establishing new state companies, such as one in the pharmaceutical sector.

EXPERIENCE ELSEWHERE

Historical account

Privatisation has been one of the great economic success stories of the last 35 years. It has also been an important British policy export. And it has been a political success in that few governments have made much attempt to renationalise companies that were previously privatised. One conspicuous exception is Venezuela, where Hugo Chavez's government went on a nationalisation spree since about 2003, with disastrous consequences. Another is Russia, which in more recent years extended the reach of the state. In the United Kingdom, even the Labour Party, which had been responsible for major nationalisations in the five or six years after the end of the Second World War, subsequently abandoned talk of reversing the privatisations that had been carried out when Margaret Thatcher was prime minister from 1979 until 1990.

Privatisation has been one of the great economic success stories of the last 35 years. It has also been an important British policy export.

Mrs Thatcher did not adopt privatisation out of ideological conviction. Her treasury pushed the idea because of the huge losses incurred by nationalised industries. In 1982 the total cost of capital write-offs and grants since the war was estimated at £40 billion (in that year's prices). The £94 billion invested in nationalised industries was yielding an average return to the exchequer of minus 1% (against the current return in South Africa of minus 2.9%). According

to one of her chancellors of the exchequer, Nigel Lawson, Mrs Thatcher was initially unenthusiastic but eventually embraced privatisation because of the money it would raise. She also wanted the industries to be run properly and to get rid of their subsidies. Mr Lawson himself took the view that "no industry should remain under state ownership unless there is a positive and overwhelming case for it so doing".

Nationalised industries that were losing £50 million a week prior to privatisation were subsequently paying £60 million a week in taxes.

By the time Mrs Thatcher left office 40 companies employing a total of 600 000 people had been sold off. The proportion of the British public that held shares had increased from 7% to 29%. Tributes to Mrs Thatcher after her death in 2013 pointed out that nationalised industries that were losing £50 million a week prior to privatisation were subsequently paying £60 million a week to the exchequer. Privatisations included 11 electricity and 11 water companies. They also included British Airways, British Petroleum, British Aerospace, British Telecom, and companies in oil, gas, coal, ports, airports, sugar, shipbuilding, and road freight, along with Cable & Wireless, the Rover group (previously British Leyland), and Rolls-Royce. Subsequently John Major's government sold off 25 passenger and freight railway franchises to run trains on state-owned Network Rail, which was established in 2002. David Cameron's government privatised Royal Mail in 2013.

Oliver Letwin, who had been one of Mrs Thatcher's advisers, subsequently went to work for Rothschilds and found himself advising governments around the world on privatisation. Among those that followed the British example were Canada, which privatised some two dozen "crown corporations" in the late 1980s and early 1990s. Canada even privatised its air traffic control system. As in Britain, privatisation in Canada spurred economic growth by creating a more dynamic industrial infrastructure.

Many former communist countries in Central and Eastern Europe also embraced privatisation as part of their transitions from planned to market economies: according to *The Economist*, thousands of rusting state-owned enterprises were put on the block. Privatisation in Russia, however, was botched by Boris Yeltsin's government, resulting in a fire sale of valuable companies to well-connected oligarchs, whom Vladimir Putin later allowed to hang on to their companies as long as they stayed out of politics. Privatisation in Russia in any event means only that the government sells down its ownership to a minimum of 51%.

Privatisation in Russia was botched by fire sales of valuable companies to well-connected oligarchs. State ownership was also kept at a minimum of 51%.

Following the financial crisis that erupted in 2008, Western governments started buying out failing banks and other companies, so reversing the privatisation trend. More recently, however, momentum has resumed, partly as governments have divested themselves of companies they took over during the crisis. But governments are also selling because they are short of cash, keen to attract foreign investment, need to finance infrastructural development, or want to inject greater efficiencies into their economies. France is looking to sell majority stakes in some of its airports. Greece is being forced by its creditors to sell off assets

ranging from the Athens water supply to airports, ports, and electricity supply. Japan (which earlier privatised Nippon Telegraph and Telephone) is looking to sell off parts of its huge postal service.

Some of the biggest initial public offerings (IPOs) have been sales of minority stakes in state companies in developing countries. Brazil has been selling minority stakes in various companies. Nigeria has unbundled its electricity corporation into separate distribution and generation companies, and embarked on an extensive privatisation process. The Nigerian government is now considering privatising its national petroleum corporation. Vietnam wants to sell off parts of several hundred SOEs. Saudi Arabia is considering an IPO for Aramco, the giant Saudi Arabian Oil Company.

In China the number of SOEs was reduced from 120 000 in the mid-1990s to 32 000 in 2004, while further reforms are in progress.

Dating back to 1978, China has been through a successful process of economic liberalisation and limited privatisation. The number of SOEs in state ownership at national, provincial, and local level was reduced from 120 000 in the mid-1990s to 32 000 in 2004. Many of these were small enterprises such as hotels, restaurants, and shopping centres. The weakest firms were closed, others opened up to private investors. An investment bank estimated that China raised $120 billion over 30 years by listing SOEs, although it kept controlling stakes. Millions of workers were laid off. In 1978 more than 99% of the urban labour force worked for the state, but by 2011 only 18% did. The share of state-owned companies in exports has fallen from two thirds in 1995 to 11% in 2012. A larger and larger proportion of loans are going to private companies.

Opening up opportunities for the private sector helped China to achieve rapid rates of economic growth. More competition was introduced, forcing state companies to become profitable. Though subject to all sorts of controls, private companies generate a return on assets much higher than those run by the state, which have become a drag on an economy which is slowing as it matures. Although they account for about a third of the economy, more than a quarter of SOEs are unprofitable. China can no longer afford to channel credit to zombie state companies for white-elephant projects. Accordingly, plans were announced in September 2015 to revamp China's model of state capitalism, inter alia by attracting more private investors, but with minority stakes. The top hundred or so state companies will be given independent boards recruited from the market rather than nominated by the party leadership. Professional asset managers will be brought in. Corruption will be combated. State companies making losses for three consecutive years risk being closed down.

The top hundred or so state companies in China will be given independent boards. Professional asset managers will also be brought in, and corruption combated.

Lessons from experience, and from logic

The *first* lesson is that companies run by professional managers, accountable to independent boards who are themselves accountable to shareholders, are more efficient than those run by political appointees accountable to the state. This does not necessarily mean that state-run companies are always inefficient. If they have appropriate managers and boards and are properly regulated by the state where regulation is necessary, they can operate efficiently, as does Ethiopian Airlines.

But they are still likely to be less efficient than private companies as they do not face the disciplines of the marketplace, which ensure bankruptcy if they do not satisfy consumers. Companies facing market discipline are unlikely to embark on costly vanity projects, such as India did when it built airports in the expectation that once an airport had been built airlines would fly into it. They did not.

The *second* lesson is that the scope for privatisation is very large. Supposed "natural" monopolies such as postal and rail services and even air traffic control need not remain in state ownership. Nor do they need to remain in national ownership: British airports belong to a Spanish company, while investors in Canada and Kuwait are among those who have expressed interest in French airports, in which a Chinese consortium has already invested. At one stage an Italian company held a minority stake in the Airports Company of South Africa, which itself is invested in airports outside the country. Harbours in various countries belong to foreign companies.

Supposedly "natural" monopolies such as postal and rail services – and even air traffic control – need not remain in state ownership.

The *third* lesson is that the scope for competition may be larger than initially supposed, provided governments resist pressures and/or their own desires to protect "national champions" and other local companies. Although British Airways was in competition with other British airlines, its biggest competitors were foreign airlines. The risk that privatisation would allow a supposed state monopoly to become a private monopoly was thus greatly diminished. SAA is similarly in competition both domestically and internationally with other airlines, not only long-established ones such as British Airways and Lufthansa, but also much newer ones such as Emirates.

The *fourth* lesson is that the state should not seek to be both a player and the referee. This occurs when the state runs an enterprise in competition with private companies, but then sets the rules of the game and/or favours state companies over private competitors, often to the disadvantage of consumers as well as competitors.

Privatisation does not need to be a long drawn-out affair and can be implemented with all deliberate speed. Britain's took little more than a decade.

The *fifth* lesson is that privatisation does not need to be a long drawn-out affair and can be implemented with all deliberate speed. Mrs Thatcher's privatisations of major state assets took place over little more than a decade. The most complicated, British Airways, took seven years, whereas SAA undergoes one failed "turnaround strategy" after another. Lessons from former communist countries are that speedy rather than dilatory privatisation reduces the risks that the managers of state companies can position themselves in order to retain control of the companies when privatised. There may be advantages in appointing new chief executives to state companies on the understanding that their primary function is to prepare the company for privatisation. This was done with British Airways. Mark Barnes, the man brought in earlier this year to rescue the South African Post Office, could similarly be told that his job is to fix it in order to sell it.

The *sixth* lesson is the need for transparency. Listing on a stock exchange which requires

full disclosure of all risks and opportunities is one means of ensuring this. Critical media, opposition parties, and civil society institutions are also essential to ensure fairness and openness – and to blow the whistle against deals manipulated for the favoured few.

The *seventh* lesson is the need for the process to be managed by independent agencies, not government officials. This will reduce the risk that privileged insiders with special knowledge or access will manipulate the process to suit themselves, so undermining its entire legitimacy and the necessary public confidence. Apart from those in Russia, privatisations in Latin America and Nigeria often resulted in capture by so-called "oligarchs". This would be an enormous risk in South Africa, necessitating numerous safeguards to prevent it.

The privatisation process should be managed by independent agencies, and not by government officials.

The *eighth* lesson is to get the pricing right. If the share price of a state company floated on the stock market is too high, it may not attract enough buyers. If the price is too low and then jumps, taxpayers may feel cheated by the sale of a state company below its market value, enabling investors to make windfall profits. This happened with Royal Mail, the price of whose shares jumped by 38% on the first trading day. But pricing risks should not deter privatisation.

The *ninth* lesson is to appoint robust and independent regulators where competition is limited, or absent. They should be appointed on application by an independent body containing appropriate technical experts, economists, business and consumer representatives, and a minority of politicians. Interviews should be conducted in public, as is the procedure with judicial and various other appointments in South Africa. The job of regulators is to protect consumers from excessive price increases. They too should operate in circumstances of maximum transparency. Private monopolies are preferable to public monopolies in that they are likely to be more efficient. Even so, they are undesirable. Regulators are therefore essential to protect consumers from abuse of market power.

The *tenth* lesson is to open up the economy to competition. This can be done by lowering barriers to market entry, encouraging foreign as well as local investment, and combating anti-competitive practices. Some of the enthusiasts for privatisation in the UK later admitted that they had been weaker on competition than they should have been, as well as weaker on tackling monopolies. However, as one of them admitted, "it is competition that produces the magic". And, of course, competition is more likely to push down prices than the best regulator.

Robust and independent regulators should be appointed, where competition is limited or absent, to protect consumers from any abuse of market power.

The *eleventh* lesson is that privatisation should not be seen simply as a means by which governments can raise money. There must be larger benefits for society, among them more competition, better products, greater efficiency, and lower prices. One of the benefits is that private investors can inject their own risk capital into privatised companies. Any losses incurred by privatised companies are then for the account of shareholders rather than that of taxpayers. All of these benefits should be properly spelt out to generate public support for privatisation.

The *twelfth* lesson is that there are losers, mainly employees of state companies. Without the discipline of having to generate profits by satisfying consumers and therefore shareholders, state companies tend to be overmanned. Subjecting them to the rigours of the market will inevitably lead to job losses. This should not deter privatisation. Instead it should be supplemented by the opening up of job opportunities elsewhere. This in turn requires liberalisation of the labour market and generous, state-funded, opportunities for retraining. At the same time, employees of state companies that were privatised should be given share options. This will help lessen grass-roots objections to privatisation, give employees an interest in making a success of the privatised company, and also provide some compensation for employees who are retrenched.

The performance of SOEs across the world has been 'shockingly bad', with SOEs among the top 50o firms losing between 33% and 37% of their value.

State capitalism versus privatisation

Jac Laubscher of Sanlam has observed that state capitalism can be efficient, as is the case in countries that include Singapore, Norway, and Malaysia. On the other hand, Russia, Iran, and Venezuela are among the inefficient state capitalists. According to *The Economist* the performance of state-owned enterprises across the world has been "shockingly bad". It reported in 2014 that the SOEs among the world's top 500 firms had lost between 33% and 37% of their value in dollars since 2007, while global shares as a whole had risen by 5%. The basic problem was huge misallocation of capital. Also, state companies found it hard to lay off people.

Although selling minority stakes in state companies to private investors is sometimes seen as "part privatisation", the reality is different as long as the state remains in control. Mr Gordhan has ruled out privatisation in favour of selling minority stakes and retaining state control. He may be correct that the private sector is not always efficient. However, inefficient companies go out of business and are replaced by competitors better able to satisfy the needs of consumers. Inefficient state companies, as South Africans have learned to their great cost, can be kept going for longer because the costs of their inefficiencies can be loaded on to taxpayers.

In South Africa the most important contributions to development – the cell phone and minibus taxi – have come from private enterprise.

Although the government sees state capitalism as necessary for development, it is difficult to see how state ownership of airlines, airports, or of armaments manufacturing companies contributes to "development". The single most important contribution to development in recent years has been the sale of cellular telephones to people all over the country, to the extent that cellphone ownership in South Africa is even greater than that of several developed countries. This is the result not of state capitalism but of competitive private enterprise. In earlier years the most important contribution to development was the advent of the minibus taxi, also the result of private enterprise, this time on the part not of major companies but of thousands of individual entrepreneurs.

On the other hand, the state's insistence on retaining ownership and control of Eskom and its mismanagement of that ownership and control, has inflicted incalculable damage upon

the whole country. It has discouraged investment, lowered the rate of economic growth and therefore of job creation, and also caused retrenchments that might otherwise have been avoided. Inefficient state-owned ports and railways, along with costly pipelines, are among other causes of economic damage. Inefficient railways have also damaged the country's physical infrastructure by transferring a huge quantity of goods traffic on to the roads.

The major British privatisation programme took about ten years. Even though the South African government appointed its presidential review commission on state-owned entities in 2010 – six years ago – little progress has been made, other than with the introduction of independent power producers on to the Eskom grid. Whereas the state can take its time, the private sector cannot because shareholders will not keep on forking out capital and companies whose managements do not fix them will go to the wall. Even though it may take time to prepare South African state companies for privatisation, the private sector is likely to fix them much more quickly than the government can. This is another reason for privatisation rather than continued state capitalism. Yet another argument in favour of privatisation is that boards of companies are free to make decisions without seeking the approval of the Treasury and/or other government departments.

It may take time to prepare SOEs for privatisation, but business will then fix them much more quickly than the government can.

CASE-BY-CASE PROPOSALS

This section of the paper will make proposals for about a dozen state companies, including companies in which the state has a major shareholding. It will begin with smaller companies that are trading in competitive markets before moving on to some of the major companies often designated as "strategic", although this term is seldom defined and is often little more than a meaningless catchword. The major focus will be on some of the troubled companies.

Mining, manufacturing, forestry

African Exploration Mining and Finance Corporation

This is a state-owned mining company operated by the Central Energy Fund (see below). It has delivered poor financial results for several years and been unable to raise funds. Plans are in hand to make it a stand-alone company reporting to the Department of Mineral Resources (DMR). It will be able to get prospecting and mining rights. Enoch Godongwana, head of the ANC's economic transformation committee, says most mining companies in South Africa are foreign-owned so that there is a need for a national mining house which is locally owned with a significant black shareholding. The Chamber of Mines, representing mining companies in the private sector, says there is no underlying objection to the company provided the playing field is level. This condition is unlikely to be fulfilled when the DMR both owns this company and regulates the mining sector. A leading mining lawyer, Peter Leon, has indeed warned of a possible conflict of interest.

The state-owned mining company has delivered poor financial results for several years and been unable to raise funds. It should be sold to private investors.

But even if there were no conflict of interest, there is no need whatsoever for the state

to own or operate a mining company. It does not possess the skills and experience to do so anyway. Such a company is likely to pose a risk to public finances. This company should accordingly be sold to private investors. If there are no buyers in the current climate of low commodity prices and uncertainty over mineral rights and mining policy in general, it should be closed down.

Alexkor (Alexander Bay Development Corporation)

Established in 1989, this state-owned company mines diamonds on land, along rivers, on beaches, and in the sea along the north-west coast of South Africa. Its "staggering incompetence" was highlighted by *The Economist* last year. The paper reported that as many as half the diamonds mined at Port Nolloth failed to make their way on to the company's income statement, while the government said that "only" 10% were stolen. This company, which wants to expand into coal-mining, should also be disposal of.

The "staggering incompetence" of Alexkor, a state-owned diamond company, was highlighted by *The Economist* last year.

Denel

Denel is a state-owned company established in 1992 to house the manufacturing divisions of the old Armaments Corporation of South Africa (Armscor), which then confined itself to procurement. Ten years ago Denel was making losses, but more recently it has turned a profit and was described earlier this year as a "shining success" among SOEs. Although Denel itself is 100% state-owned, it holds stakes of between 30% and 51% in several other companies.

Clouds now loom over Denel. In July last year the minister of public enterprises, Lynne Brown, appointed a new board composed of people with little knowledge of the industry and some of whose integrity was open to question. One was an associate of the Gupta family, while the new chairman was a disgraced lawyer. Subsequently three senior executives were forced out. Among them was the chief executive, who had helped turn the company from loss into profit. The new board then went on to form a joint venture with a company associated with the Guptas. This was evidently done without the permission of the Treasury, even though the Public Finance Management Act requires this.

Denel has formed a joint venture with a company associated with the Guptas –and has done so without the permission of the Treasury.

The Department of Public Enterprises said that the delay in obtaining Treasury approval had put Denel at a disadvantage in the competitive global arms market. Delays in decision-making could decide the fate of a business. State companies, the department said, were expected to run like private sector companies but they operated in a restrictive legislative environment, which was becoming a "disabler" for them. This, the director general of the department suggested in testimony to parliamentary committees early in September, "strengthens the argument for them to be privatised".

Indeed it does. Moreover, even if Denel had a board of unquestioned expertise and integrity, there is no need for the South African state to be involved in the manufacture of armaments anyway. It is a capitalist enterprise which serves no "developmental" purpose.

Denel should sell its stakes in other companies, and Denel itself should be sold. The government can intervene if necessary to block exports of arms to countries seen as unfriendly or engaged in wars of aggression.

Ketlaphela

President Zuma announced the establishment of this company in February 2016. The government said it wanted private-sector suppliers of antiretroviral medication, of which there are already four, to allocate some of their products to this firm, which would also establish its own drug manufacturing plant and supply branded medicines from the 2016/2017 financial year. Again, the government would be both regulator and a participant in the market. Pharmaceutical companies have done a perfectly satisfactory job in supplying antiretrovirals at lower and lower prices. There is no need for this new company, which is likely to be a drain on public finances. The government should proceed no further with it.

There is no need for a state pharmaceutical company to supply ARVs to South Africans. It is also likely to be a drain on public finances.

Safcol (South African Forestry Corporation)

This state-owned company manages about 10% of the commercial plantation area in South Africa, making it the third largest after Sappi and Mondi, both of them listed companies. There have been reports about the irregular awards of tenders. Safcol's chairman says the company is "well-positioned to lead the forestry industrial revolution of the 21st century". Even if this were true, there is no need for the state to operate in this sector. If oligopoly fears preclude sale to Mondi and Sappi, Safcol's 23 plantations could be sold to some of the ten smaller companies, 1 300 commercial growers in the industry, and 20 000 small timber growers.

Transportation

Airports Company of South Africa

Unlike most other state-owned companies, this one is profitable, thanks in part to the fact that it faces no competition. The government is the major shareholder, while 20% is held by the Public Investment Corporation. The PIC's shares were sold to an Italian company in 1998, but were bought back in 2005. In addition to owning and operating all nine of South Africa's largest airports, the company operates airports in India and Brazil. Airport tariffs, which are subject to regulation, have risen substantially in recent years to help pay off profligate expenditure, some of it to build the new King Shaka airport in Durban for the 2010 Soccer World Cup.

Acsa, unlike other SOEs, is profitable, but its airport tariffs have risen substantially to help pay off profligate expenditure on the new King Shaka airport in Durban, among other things.

The company's airports in South Africa have been described as among the most expensive in the world. The company takes the view that its capital expenditure programme should be financed by tariff increases, but the regulator says it should go to the capital markets for the money. In 2010 it demanded a tariff increase of 133%, but it got "only" 33% that year and 34% the year after. Nor is the company short on ambition. It wants to turn the country's major airports into "commercial/retail/entertainment centres" that will attract non-airline passenger

traffic as well. Its chief executive, Bongani Maseko, says "there is nothing to stop us replicating the Sandton Square concept at O R Tambo". He also wants to expand into Africa.

There is nothing wrong with such adventurous capitalism. But it should be done by real capitalists, not by companies who expect the state to ensure that they recover their costs and bail them out if they get into trouble. Airport privatisations in other countries have been successful. There was criticism in the UK for allowing the British Airports Authority to perpetuate its predecessor's monopoly, but the monopoly was later broken by the competition authorities. Heathrow and Gatwick, London's two biggest airports, are in competition with one another. Lanseria, north of Johannesburg, is privately owned.

There is no reason why the government needs to own airports in South Africa, still less operate airports elsewhere.

There is no reason why the government needs to own airports in South Africa, still less operate airports elsewhere. This company should therefore be privatised. But the various airports should be sold to different buyers, which can then compete with one another in attracting airlines, including foreign airlines, to fly into them. At the same time the skies should be deregulated, as has happened in many other countries. The only limitation on foreign flights coming into South Africa should be airport capacity, not protection of SAA against competitors. Underutilised but lavish international airports, such as King Shaka, would then be able to attract far more traffic. Proceeds of the sale of the Airports Company should be used to reduce the government's debt.

South African Airways (SAA)

Owning airlines seems to have a fatal attraction for governments the world over. Some that are government-owned, including Singapore, Ethiopian Airlines, Etihad, Emirates, and Qatar, are highly successful because they are allowed to operate as commercial enterprises with minimal interference. But they are the lucky ones. South African Airways (SAA) is one of the unluckiest. Without an equity base, with a board most charitably described as out of its depth, and saddled with constant interference by ministers who know nothing of the airline business, SAA is technically insolvent. One such minister, Malusi Gigabi, tacitly admitted that SAA had wasted R16 billion of taxpayers' money on eight "turnaround" strategies since 2001. He conceded that the airline was overstaffed and that management was "bloated', but said that no job cuts would be permitted. The airline survives only on the back of government guarantees, the second most recent of which runs to R14.5 billion, virtually all of which has been used up.

SAA has wasted R16 billion of taxpayers' money on eight "turnaround" strategies since 2001. It survives solely on government guarantees.

Mr Gordhan has been refusing to provide another R5 billion requested by SAA until he can replace the board. A new board was announced in August 2016 and a R4.7 billion guarantee was provided in September. However, despite Mr Gordhan's desire to remove her, Ms Dudu Myeni remained on as chairman, evidently at the behest of her friend Jacob Zuma. The government is seeking "strategic partnerships to allow it to draw on private capital and technical expertise" to help SAA, but it would take a bold investor to put any money in. Losses in the last two years total R6.5 billion.

Some 20% of SAA was sold to Swissair in 1999, but the share was repurchased when that airline went bankrupt. However, full privatisation needs now to be put back on the agenda for SAA. One route would be to put the airline into business rescue in terms of the Companies Act to prepare for privatisation. This would enable the present board to be replaced by competent rescue practitioners. The airline would also be placed beyond the reach of politicians. Another option would be to sell SAA for a nominal sum – say a dollar – to anyone willing to take over all its liabilities. Yet another solution would be to use the proceeds of sales of other assets – the state's share in Telkom, for example – to recapitalise SAA, but only in preparation for selling it, preferably to an operator that does not already fly into South Africa on any large scale.

Prior to privatisation, British Airways was also losing money. It could be studied as a model. So too could Qantas, which is now "unpropped up by government".

Prior to privatisation, British Airways was also losing money. It could be studied as a model. So could Qantas, which was gradually privatised between 1993 and 1997, having been nationalised in 1947. In March 2014, the Australian prime minister, Tony Abbott, refused to provide guarantees for Qantas, saying the airline was "best placed to compete and to flourish if it is unshackled and unpropped up by government".

Passenger Rail Agency of South Africa (Prasa)

Wholly state-owned and reporting to the minister of transport, this agency runs both commuter and inter-city rail services, as well as an inter-city coach service. According to the minister, Dipuo Peters, the agency is in "shambles and disarray", but she says she was largely unaware of the scale of corruption that has been the focus of numerous reports and enquiries – and which led the public protector to recommend that the Treasury commission a forensic investigation into 200 contracts, each worth more than R10 million, awarded since 2012. Commenting on the public protector's report last year, the *Financial Mail* said her dissection of "the rot" inside the agency "should terrify anyone doing business in this country."

At Prasa, irregular tenders and/or expenditure amounting to some R24 billion are now the subject of various investigations.

The agency has a major spending programme ahead of it, and is therefore a major source of income for contractors. However, irregular tenders and/or expenditure amounting to some R24 billion are the subject of various investigations. The most notorious was a payment of some R5 billion concluded during the tenure of the previous chief executive, Lucky Montana, for Spanish locomotives subsequently found to be too high for the South African rail network. The agency is attempting to have this set aside in the courts. Popo Molefe, its present chairman, stated in an affidavit that R80 million was paid to the ANC and others in connection with the purchase contract (an allegation which the ANC denies). Ms Peters recently tried to put a stop to investigations into financial malfeasance at the agency, lest it suffer "investigation fatigue", but Mr Molefe has refused to comply with her wishes.

Despite the fact that the company receives subsidies, it loses money and fails to meet even

half its performance targets. Ms Peters has complained of deteriorating services that have seen passengers take flight in search of alternative modes of transport. This applies to both Metrorail, the urban commuter service, and Shosholoza Meyl, the agency's long-distance service connecting Johannesburg and Pretoria with the major coastal cities. Shosholoza Meyl, which offers both first and economy class travel, but which is steadily losing passengers, should be privatised. Private operators would be able to compete with inter-city air and road travel. Metrorail, which is erratic and unsafe, could be licensed out to metropolitan authorities, who would themselves then be able to sub-let commuter operations to private companies.

As for Transnet, there is no reason why a "developmental" state should run a luxury train service (the Blue Train), which is also under-utilised.

Transnet

This state-owned company plans R380 billion in capital expenditure in the next 10 years. Its present group chief executive, Siyabonga Gama, was appointed by the Cabinet earlier this year after having been dismissed by the Transnet board in 2010 for misconduct and the improper award of two tenders.

Although the bulk of its business is rail freight, ports, and pipelines, Transnet also operates the Blue Train, a once-famous luxury passenger train connecting the two major inland cities with Cape Town. Like Shosholoza Meyl, the Blue Train is underutilised. There is no reason why a state claiming to be "developmental" should run a luxury train service, which could be sold to a company such as Orient Express. Private companies offering luxurious travel, such as Rovos Rail, already operate on the South Africa's state-owned rail network. With the low rand exchange rate and South Africa's scenic attractions, there is no reason why properly managed and marketed passenger rail services should not be greatly expanded by private operators able to compete with one another. This would, however, require Transnet itself to become much more efficient, so that private operators can run their trains on time, as well as being permitted to use their own locomotives.

Inefficiencies in the monopoly run by Transnet Freight Rail (previously Spoornet) have caused huge damage to the economy, including loss of coal and other exports because of underinvestment in, or poor maintenance of, railways. The government is considering opening up a score of branch lines – among them the one between Kimberley and De Aar – to private sector participation, but if these can be opened up so can more profitable mainline services. However, the country's entire rail network should also be opened up to privately-owned freight services allowed to operate in competition with those run by Transnet. More competition in the rail freight sector will help to contain prices. It may also attract more traffic back on to rail, so reducing the damage heavy freight causes to South Africa's inter-city roads.

Inefficiencies in the monopoly run by Transnet Freight Rail have caused huge damage to the country's economy.

Following the British model, railways and railway stations should be removed from Transnet and housed in a separate company responsible for maintaining the network. This company would then invite applications from passenger and freight train operators to apply for licences to run their trains on the network. Transnet Freight and the passenger rail agency would be among the competitors seeking licences.

Some of South Africa's eight largest ports are notoriously inefficient. Charges are high and facilities have been allowed to deteriorate. One Transnet company owns the ports, making large profits, and another operates them. A report of the Organisation for Economic Co-operation and Development (OECD) in 2014 said Durban was one of the most expensive ports in the world because of its high cargo dues. The International Monetary Fund said in 2016 that South African port charges were 173% higher than the global average, undermining the country's competitiveness. A *Port Tariffs Benchmarking Report* published in 2016 put the premium paid in South Africa by cargo owners at 267% of the global average. The same report said that turnaround times in Durban, South Africa's main container port, were double the global average and four times the Japanese turnaround time.

The IMF said in 2016 that South African port charges were 173% higher than the global average, undermining our competitiveness.

Dry docks have been neglected, as has dredging in Durban, causing part of that harbour to silt up. Container ships are getting bigger and bigger but they are not calling at South African ports in large enough numbers because the country does not have the capacity to accommodate them. According to Mr Zuma, 30 000 ships pass through South African waters each year. Some 13 000 dock in South Africa, but only 5% of these do so for repairs and maintenance. Only four of the 80 rigs in the Western Cape are serviced each year in South Africa. According to the minister of trade and industry, Rob Davies, South Africa is ideally placed to serve east-west cargo traffic and the booming African off-shore oil and gas industry, which includes ship and rig repair and refurbishment, but is currently able to capture only 1% of that market. High charges have driven away bunkering opportunities. In the meantime, ports in East and West Africa are opening up as gateways to other countries in competition with South Africa.

A new container port is to be built on the site of the old Durban airport, although the deadline for completion has been extended from 2022 to 2032. The government has spoken of bringing in private sector expertise and operators. South Africa already has a number of private sector operators, notably at the major bulk terminal at Richards Bay, but also including smaller facilities operated by Grindrod and Bidvest. Transnet is calling for proposals for companies to design, finance, build, operate and provide maintenance for a liquid bulk terminal in Durban to handle refined petroleum imports on a 25-year concession. The winning bidder will be required to have 51% black ownership.

Some 30 000 ships pass through South African waters each year, but only about 650 dock here for repairs and maintenance.

Mr Zuma has complained that South Africa has 3 000 km of coastline but owns no ships. In May 2016 the head of the South African Maritime Safety Authority stepped down amid an investigation into the organisation's finances. He had once dreamt of making South Africa a maritime superpower with a fleet of ships fanning out across the world. These kinds of fantasies are typical of the government: it indulges in dreams while neglecting the opportunities under its very nose to turn South Africa's ports into ports of choice for the repair and maintenance of all the ships rounding the Cape. The ports should

be sold to different companies, both to prevent a private monopoly taking over from a state monopoly, and also to maximise competition between the various ports. There are opportunities not only for more efficient loading and unloading of cargo, but also for shipping repairs and maintenance. Bolloré Africa Logistics, a French company which operates more than a dozen ports and terminals in Africa, has already said it would like to expand into South Africa.

The third major component of Transnet after rail freight and ports is Transnet Pipelines (previously Petronet). In 2016 the National Energy Regulator of South Africa (Nersa) granted Transnet a 23% tariff increase – not the first such substantial increase – for a new 555 km pipeline from Durban to the Witwatersrand to replace an old one and carry petrol, diesel, and jet fuel. The pipeline will not be completed until 2019, almost a decade late, and will cost almost three times the original price (some of it as a result of irregular expenditure). It was never satisfactorily explained why Nersa awarded the licence to Transnet and rejected the bid of a rival private sector consortium, iPayipi. Not only was the consortium's bid lower, but private funders would have assumed the risks of late completion and running over budget. This is yet another example of why the state should not be both the regulator and a player in the market. Favouritism on the part of Nersa towards Transnet means that motorists and other fuel consumers are already having to pay up for that company's huge cost overruns – in this instance, an additional 5.4 cents per litre of petrol in Gauteng over and above the fuel levy increases announced in the 2016 budget. These kinds of escalations in prices undermine the competitiveness of South Africa's vital logistics sector.

Transnet's new pipeline from Durban to Gauteng is almost a decade late, and is likely to cost almost three times its original price.

The opportunity to hand over the transportation of fuel from Durban to the country's economic heartland was let slip. Transnet should now be broken up and its different components licensed or sold to competitive private operators.

Energy

Central Energy Fund

According to the National Treasury, the Central Energy Fund is responsible for "developing energy solutions for South Africa". This is asking for trouble. Give a company such a mandate, appoint loyal but unqualified cadres of dubious integrity to run it, and the result will be huge losses. Predictably enough, the Central Energy Fund's largest subsidiary, Petro SA, ran up a loss of R14.3 billion in 2014/15, the biggest annual loss faced by any state company since 1994. The year before that it ran up a loss of R1.6 billion. Many years before that it gave R11 million to the ANC. After the failed attempt to buy Petronas of Malaysia's stake in Engen some years ago, a plan strongly supported by President Zuma and the energy minister, Tina Joemat-Petterson, Petro SA this year put in its bid to buy Chevron's assets. At the direction of Pravin Gordhan during his first term as finance minister, the Treasury refused to finance the Petronas/Engen bid, prompting speculation that this was one of the reasons he was relieved of his post. This year Ms Tina Joemat-Petterson vetoed the bid for Chevron.

Petro SA ran up a loss of R14.3 billion in 2014/15. This is the biggest annual loss faced by any state company since 1994. The year before that it ran up a loss of R1.6 billion.

Petro SA is spending billions on Project Ikhwezi to search for gas under the sea off Mossel Bay, exploration likely to be far more successful if carried out by companies in the private sector. Petro SA also sees a role for itself as the holder of the state's free carry assets in new oil and gas companies. It wants to build a floating terminal for liquefied natural gas. At one stage it planned a huge new refinery – Project Mthombo – at Coega near Port Elizabeth that would use crude oil supplied from Venezuela by Hugo Chavez at below-market prices.

The Strategic Fuel Fund sold all strategic fuel stocks in 2016 at well below prevailing market prices, and at a possible loss to the state (that is, taxpayers) of R1.5 billion.

But there is no reason whatsoever for Petro SA to exist at all. It is a classic example of an enterprise run by people whose expertise is far outweighed by their ambitions, but who wish to pursue their ambitions with public funds. The company should be sold or closed. Also closed should be the Strategic Fuel Fund, another subsidiary of the Central Energy Fund. It sold all strategic fuel stocks in 2016 at well below prevailing market prices, apparently without calling for tenders and at a possible loss to the state (that is, taxpayers) of some R1.5 billion. South Africa is no longer subject to oil sanctions, so there is no need for it to rebuild its strategic stockpile, which in any event was never used even during the sanctions era.

Eskom

No state-owned company has inflicted greater obvious damage upon South Africa than Eskom, which has for long had a virtual monopoly over the generation and supply of electric power. Starting in 2008, the country experienced seven years of power blackouts, leading to deferred or cancelled investment, company bankruptcies, retrenchments, and lost economic and employment growth. Apart from job losses, human consequences include deaths in operating theatres when power failed and backup systems did not kick in. As already noted, Eskom's own policies, among them discarding skilled people on racial grounds, were partly to blame.

No state-owned company has inflicted greater damage upon South Africa than Eskom with its virtual monopoly over electricity generation and supply.

But the major culprit was the government itself. Previously Eskom had been free to build more power stations to keep up with growing demand for electricity. But in 2001 the government under President Thabo Mbeki forbade Eskom to build new power stations even though its own projections showed that the supply of electricity would run out more or less when it did. Eskom itself knew this, but failed to blow the whistle loudly enough against the insanity of the prohibition. The prohibition was part of a half-baked strategy aimed at greater participation by the private sector in a liberalised market. But the private sector did not enter the market because the appropriate market structure was never put in place. As far back as 1998 the government had also contemplated splitting Eskom into separate generation and transmission companies . Legislation to establish an Independent System and Market Operator (Ismo) was drawn up, but shelved in 2014.

With better maintenance and the installation of additional generating capacity, some of it

by private companies, power blackouts have greatly diminished. Mr Zuma said in 2016 that Eskom had turned the corner and that South Africa would never again experience blackouts. This, of course, is an admission more of failure than of success, since part of the reason for fewer blackouts is that lower growth has meant less demand for electricity. Some users have closed down. Also, more and more households and businesses are abandoning Eskom's national grid as they install their own capacity in one form or another.

The country still needs more generating capacity, however. How much, of course, will depend on the rate of economic growth, which itself will depend on the availability of reliable electricity. Eskom has already received large cash injections, the most recent of which is R23 billion from the sale of the state's Vodacom shares (14% of Vodacom's equity). (This sale was chosen by the Treasury after discussions with banks had identified a total of R250 billion worth of "non-strategic government assets" that might be sold.) Eskom will need an estimated R300 billion in the next few years to complete Kusile and Medupi, two huge new coal-fired power stations whose costs have escalated enormously and which are several years behind schedule. It has talked of calling for bids for a third major coal-fired station.

Eskom will need an estimated R300 billion to complete Kusile and Medupi, the costs of which have escalated enormously.

Eskom's chief executive, Brian Molefe, also envisages a major expansion of Eskom's nuclear generating capacity, which Mr Zuma also favours. So far, however, the Treasury has resisted on the ground that the upfront costs of new nuclear capacity – estimated at between R650 billion and R1 trillion for three power stations generating altogether 9.6 gigawatts of electricity – are beyond the country's means. According to a report by the Parliamentary Budget Office in September 2016, "Eskom's finances, and consequently its ability to raise debt and finance major projects without the support of the state, have worsened". Eskom, for its part, seems to operate on the assumption that it is entitled to recover whatever costs it incurs from consumers because the independent National Electricity Regulator of South Africa (Nersa) will give it the price increases it demands (see below). A leading economist, Gavin Keeton, has pointed out that Eskom's overspending on major projects "will be recovered from user charges forever". (Where private projects exceeded budget, he pointed out, the result was not increased prices for consumers but lower profits for shareholders.)

Eskom envisages a major expansion of nuclear generating capacity, which Mr Zuma also favours but the Treasury continues to resist.

In the meantime, more and more renewable energy in the form of wind and solar is becoming available as independent power producers (IPPs) sign 20-year contracts with the Department of Public Enterprises to supply Eskom's grid. (Currently they account for about 5% of Eskom's installed capacity of almost 50 000 megawatts.) Although the price of renewable energy is dropping, Eskom complains that renewable energy is more expensive than its own. It also complains that the department is forcing it to buy from competitors when it is now able to produce enough itself. Although the IPPs were introduced in the first place because of the blackout crisis, Eskom has a point: why should it be compelled to buy from competitors at prices determined not by itself but by the department?

One of the great advantages of the IPP tender process has been its transparency and competitiveness, a welcome contrast with some of the other deals in the electricity sector. Most notoriously, some years ago, an ANC "funding vehicle", Chancellor House, received some $6 million from a Hitachi subsidiary in connection with contracts at Medupi and Kusile. More recently, there have been reports of corruption around the construction of Eskom's Ingula pumped storage scheme, whose costs are running at four times the original estimates. The Treasury and Eskom are also at daggers drawn over contracts signed in suspicious circumstances with Tegeta, a Gupta company, to supply Eskom with coal – even though the quality and suitability of that coal is open to question. Suspicions abound that Mr Zuma will somehow benefit from a nuclear deal, in particular one with Russia.

Eskom should be broken up. All its two dozen power stations should be housed in separate companies and sold to the private sector, with limits on how many each can buy.

Where to from here? Eskom should be broken up. In the first place, the Ismo legislation should be revived so that the national electricity grid is housed in a separate company. All of Eskom's two dozen existing power stations should be housed in separate companies and sold to the private sector. To avoid monopoly risks, limitations can be placed on how many each bidder can buy. Both local and foreign companies would be welcome to bid.

The grid operator will own, operate, and maintain the grid. It will buy and sell electricity but not generate it. In the first place, it would buy from the new owners of the existing power stations, who would compete with one another on price. Secondly, the grid operator would buy from companies installing new capacity – whether coal, wind, solar, water, gas, diesel, or nuclear. The installation of such new capacity would be entirely at the risk of the companies in question. They would have to find the money on capital markets, and the costs of overruns would be for their own account. They would compete with one another for contracts with the operator. Companies relying on wind or the sun to supply the grid would have to make their own arrangements for backup when the wind does not blow or the sun does not shine – although this is a problem likely to diminish over time as technology for storing such energy improves and current high storage prices drop. Alternatively, the operator can diversify its various sources widely enough to get the appropriate and most reliable mix of intermittent and base-load electricity.

The Ismo legislation should be revived and the national electricity grid housed in a separate company, which would then buy and sell electricity from private power stations.

The grid operator would negotiate prices with suppliers, so that the role of the department in this regard would fall away. Since the operator would then be the sole major supplier to businesses and households, the prices would be subject to regulation by Nersa. However, anyone wishing to generate or purchase energy from outside the grid would be free to do so. They would also be eligible to sell any excess to the grid. No types of energy would receive any state subsidies, nor would the state seek to guarantee their markets.

What of Eskom? Its survival in its present form is clearly impossible without protection and/or continuing subsidies extracted from consumers or taxpayers. Higher and higher electricity

prices will do further damage to the economy while also driving more and more consumers off the grid. Eskom could disappear altogether, or become one of a number of competitive suppliers, or it could reincarnate itself as the grid operator, which would itself be privatised.

Given Eskom's near monopoly status, consumers rely on the National Energy Regulator of South Africa (Nersa) to protect them from exorbitant price increases. Even though Eskom currently has permission to increase electricity prices by 13% a year, Nersa in the past has granted only part of the price increases sought by Eskom – which at one stage threatened power blackouts if its requests were denied. Thembani Bukula, an electrical engineer who has headed Nersa's electricity regulation for 10 years, has said that if Eskom cleaned up its act, improved efficiencies, tightened up cost controls, and did proper maintenance, it would not need astronomical tariff increases. Average electricity tariffs went up in real terms by no less than 170% between 2007 and 2015 (and by 324% in nominal terms). Mr Bukula's contract recently expired and has not been renewed. At the same time the Department of Energy is busy with legislation to establish an appeals board to give the minister of energy the power to overrule Nersa decisions. A critically important regulatory body accordingly risks having its independence undermined by political interference, to the detriment of both consumers and the economy.

Nersa's decisions on electricity tariffs are now subject to high court review. In future, they could become subject to a new appeals board under ministerial control.

At the moment Nersa decisions are subject to review by the high court, which recently overruled as "irrational, unfair, and unlawful" a decision permitting excessive retroactive recovery of earlier unforeseen expenditure. The judge, Cynthia Pretorius, said that Nersa had failed to deal with Eskom's incompetence, including encouraging consumers to use less electricity and so damaging its own sales. The result of her decision is that Eskom is entitled to levy only a 3.4% tariff increase this year, against the 9.4% authorised by Nersa.

Communications

Broadband Infraco

This state-owned company provides long-distance connectivity to licensed private sector partners, to licence-exempt projects of national importance, and to previously underserviced areas. It also seeks to provide broadband access in remote rural areas, and to hospitals, clinics, and schools. The Department of Telecommunications and Postal Services holds 74% and the Industrial Development Corporation the remaining 26%. The company is looking for bailouts and government guarantees, but these have been refused. At the time of writing, the sale of part of Broadband Infraco was supposedly under consideration. The whole company should be sold.

Broadband Infraco seeks to provide broadband access in remote rural areas, and is looking for bailouts and government guarantees.

South African Post Office (Sapo)

The state is the only shareholder in this company, which has had three chief executives, four chief financial officers, three chief operating officers, and three chairmen since 2012. It has a monopoly of postal (though not of courier) services. This may be one of the reasons why the

proportion of households receiving no mail through the post has risen from 9% in 2002 to 21% in 2013. More than three million households thus receive no post either through home delivery or at postboxes. In Limpopo province, only 29% of households receive post at boxes or through home delivery. Apart from leadership instability, the post office has been plagued by internal conflict between its top executives, strikes, irregular expenditure, fraud, and corruption. It has been losing money, relies on state guarantees to borrow, and recently received an additional bailout.

The South African Post Office has been plagued by leadership instability, strikes, fraud, and corruption and has relied on state guarantees to borrow.

Mark Barnes, a businessman who was appointed at the beginning of 2016 as its CEO, said the post office faced collapse if it was not able to secure funding, but he has been able to obtain it. He says he believes in "state capitalism" and wants to wean the post office from state support and government guarantees over the next three years. However, he wants subsidies to be reinstated for the post office's universal service obligations, among them unprofitable offices in rural areas. The withdrawal of the subsidies in recent years is part of the reason for the post office's financial plight.

Mr Barnes's ambitions go further. He wants to run the post office as a business, making a third of its money from financial services, another third from e-commerce deliveries, and the remainder from mail. The Postbank, which belongs to the post office, is able to take deposits but not lend money, which he wants to change. "Our ambition is to own the last mile, for everything," he says. This includes emulating India and Japan, where parcel delivery from Internet purchases has become a big part of their post office business models.

Mr Barnes should be given a chance to fix this moribund institution. But the protection it enjoys – in that all letters must be routed through the post office – should be phased out. Once the post office is a profitable concern able to operate without government guarantees of its debt, privatisation can be implemented. If subsidies are necessary to fulfil universal service obligations, they can be paid to private operators. Successful privatisations in the UK and elsewhere can be studied to show up any pitfalls in advance.

The post office should be privatised. If subsidies are then needed to fulfil universal postal service obligations, they can be paid to private operators.

Telkom

The Department of Telecommunications and Postal Services holds almost 40% of the shares of this company, which is the offspring of the one-time telephone monopoly run by the post office. The PIC owns just less than 12%. Four years ago the government passed up an opportunity to sell its share to a South Korean company, causing Telkom's share price to drop. Shortly thereafter the then communications minister said renationalisation was a possible option as the company was finding it difficult to compete with cellphone operators. Two years ago there was speculation that the government might sell its share of Telkom, whose share price had in the meantime staged a spectacular recovery, to help Eskom.

While the proportion of households with fixed-line telephones has dropped from 10%

to 8% in 2001, the proportion with cellular telephones has risen from 18% to 96%. There are now 145 cellular telephone subscribers in South Africa for every 100 people, a penetration rate exceeding that of the United Kingdom (125) and even Switzerland (137). Telkom is now moving aggressively into the cellular field, where it is the smallest of four companies, with a market share of less than 3%.

There is no reason for a government department to hold on to its 40% share of Telkom. The privatisation process which began in 1997 should now be completed. The shares should be sold and the proceeds used to reduce public debt. Alternatively they could be used to re-capitalise SAA – not to keep it going as a state company, but to make it a saleable proposition for private investors. An added reason for the department to sell its stake in Telkom is that the government should confine itself to necessary regulation of the telecommunication sector instead of being both referee and a player.

Less than 10% of households have fixed-line telephones, whereas cell phone penetration has increased to 96%.

FORTHCOMING EXPENDITURE RISKS

The National Development Plan adopted in 2012 said that repairing and expanding the country's infrastructure would cost some R4 trillion over the next 15 years. According to the 2016 *Budget Review,* R867 billion was budgeted to be spent by all branches of government between the 2016/2017 and 2018/2019 financial years on public sector infrastructure. The share of this accounted for by public entities and state-owned companies is R422 billion (the balance being accounted for by national, provincial, and local government departments). Some of the state companies mentioned earlier in this report have larger budgets stretching further into the future. How much of all this money will be misappropriated is impossible to say. But the huge sums involved are a major incentive for the capture of key positions in SOEs and/or for exerting influence over procurement processes. Hence some of the public brawling between state companies and the Treasury, between such companies and their shareholder ministers, and between various members of the Cabinet – so much so that Mr Ramaphosa spoke of a government "that wages war with itself". Hence also the attacks by various ministers on Mr Gordhan, as well as his description of some of his colleagues as thieves. At the time this paper was being finalised (9th September), he had vowed again to look after public money and to ensure that all expenditure was in compliance with the law.

Although privatisation of SOEs was once on the ANC's agenda, even to suggest it today seems fanciful. But the crises facing several such companies present an opportunity.

CONCLUSION

Although privatisation of state-owned companies was once on the ANC's agenda, even to suggest it today seems fanciful. But the crises facing several such companies present an opportunity. The use of cadre deployment to capture state companies as key centres of power has long been part of the policy of the ANC and its communist and trade union allies, committed, as they are, to bringing about a "National Democratic Revolution" in South Africa. This blurring of the vital distinction between party and state was always an abuse of power, as even those now aghast at what has happened, among them Trevor Manuel and Pravin

Gordhan, were well aware. Not only they, but also more and more members of the ANC, the SACP, and the Cosatu leadership can now see the dangers when such a policy is abused not for party-political gain but for personal gain of top politicians and/or their benefactors and/or their business associates. Although its extent is impossible to assess, the malfeasance at and around state companies may have caused the ANC to lose support in the nationwide municipal elections on 3rd August.

The best bulwark against malfeasance is to put as many SOEs as possible as far beyond the reach of politicians as possible – and to do so as permanently as possible.

As long as President Jacob Zuma is in power, privatisation of state companies is unlikely. But he will not be there forever. Nor, however, is there any guarantee that a future president or other politicians may not seek control of state companies for their own advantage. The best bulwark against this is to put as many state companies as possible as far beyond the reach of politicians as possible as permanently as possible. This means privatising them. Future governments would, of course, be able to renationalise privatised companies, but this has seldom happened elsewhere (except temporarily during the financial crisis that began in 2008). Nor, beyond people such as the general secretary of the South African Communist Party, Blade Nzimande, who wants to renationalise Sasol, does there seem to be much demand in South Africa for the state to take back control of largely privatised companies such as Telkom. In any event, the risk of renationalisation at some future date should not stand in the way of implementing privatisation now.

The case for privatisation, though powerful, nevertheless faces an uphill battle. Part of the reason is widespread hostility in South Africa towards private enterprise. This hostility is dominant in the ANC and among its alliance partners. It is also dominant in academia and civil society. It influences the writings of many journalists. If there is any enthusiasm for privatisation in the business world, few people are willing to say so in public. When companies in the private sector are challenged, they say little about the merits of the capitalist system and/or private enterprise and/or free markets, but confine themselves to accounts of what they have done for "transformation" and/or "community development".

The case for privatisation, though powerful, faces an uphill battle. This is partly because of widespread hostility towards private enterprise within the ANC, academia, civic society, and the media.

Yet a powerful case can be made. This is not because the private sector is automatically more virtuous. Far from it. The author of *The Wealth of Nations*, Adam Smith, once wrote that whenever merchants or manufacturers got together it was usually to conspire against consumers and raise prices. The great American economist Thomas Sowell once wrote that he had promised to give an A grade to any student who could find a favourable reference to businessmen in Smith's book. None ever found such a reference.

The case for capitalism rests not on the greater virtue or integrity of capitalists but on a range of other factors. One is that they take risks with funds provided by themselves or by fellow-shareholders, rather than by taxpayers. The second is that companies whose products and services fail to satisfy consumers go bankrupt, whereas failing state companies are usu-

ally rescued by taxpayers. A third argument is that incompetent or dishonest executives of companies in the private sector are usually axed by shareholders far more easily and quickly than is the case with state companies.

"Profit" is a dirty word in many circles. The demand "people before profits" is often voiced by non-governmental organisations, journalists, and politicians. But no company which did not satisfy the needs of "the people" in the form of its customers would ever make a profit. If capitalists do not provide goods and services to consumers at acceptable prices they will not be able to sell anything and they will earn no income, let alone enough to pay themselves dividends. State companies, on the other hand, can survive even if they do not satisfy the needs of the customers because governments would rather use taxpayers' money to keep them afloat than incur the embarrassment of allowing them to sink into bankruptcy.

SOEs can survive, even if they do not satisfy the needs of their customers, because governments use taxpayers' money to keep them afloat rather than allow them to sink into bankruptcy.

Apart from satisfying consumers, capitalists will seek to maximise profits by pushing up prices as high as they can. The best way to counter this is to ensure that there is as much competition as possible. This necessitates intervention by an impartial state to eliminate cartels and lower barriers to market entry by both local and foreign companies. Where competition does not push down prices, the state must regulate them in such a way as to ensure a balance between the interests of consumers and those of capitalists, who have, after all, put up the money.

Another argument put forward by those favouring state companies over private companies is that the former are somehow "pro-poor" whereas the latter are not. Yet if the state had retained its monopoly of telecommunications, the great majority of South Africans would almost certainly still be without telephones. By contrast, companies in the private sector competing with one another for the custom of millions of South Africans have brought telephones to virtually the entire population, poor as well as rich. Moreover, if Eskom had been opened up to competition as was once envisaged, and the job had been done properly instead of botched, South Africa would not have experienced the power outages that have done such irreparable harm to the country and to the livelihoods of so many people. There is nothing about Denel, Sanral, or Transnet, or the SAA, or the Airports Company to suggest that they are "pro-poor" either. There is certainly nothing "pro-poor" about companies that rely on regulators to enforce price increases on their behalf irrespective of how efficient they are.

There is nothing about many SOEs – including Eskom, Denel, Sanral, Transnet, SAA or the Airports Company – to suggest that they are "pro-poor".

State companies are often justified as somehow belonging to "the people". This is true only in the most nominal sense. "The people" are represented by a single shareholder, usually a government department such as public enterprises, or energy, or transport, or mineral resources. If that department fails to ensure that the state company satisfies the needs of "the people", there is little they can do about it beyond throwing out the government at the next election. In the meantime, their taxes will help to keep the failing company going.

On the other hand, although companies in the private sector do not belong to "the people" – apart from those who buy shares in them – they cannot survive unless they satisfy the needs of "the people" in the form of their customers. Moreover they must do so all the time. That is one of the reasons they are forever chasing after their customers with loyalty programmes, mass advertising, special offers, discounts, and the like.

Companies in the private sector directly accountable to shareholders and therefore consumers cannot afford to squander capital on grandiose projects that cater mainly to the vanities of their own managements or those of politicians. If they do, they will go bankrupt and their executives will be dismissed for wasting shareholders' money. Private companies are therefore far more likely to invest only in products and services that will satisfy the needs of their customers. South Africa has a very low domestic savings rate, and is not very successful at attracting foreign capital. It is therefore of critical importance that savings are prudently and efficiently invested. For all the reasons set out in this paper, the private sector will do that much more efficiently than the state.

Private companies directly accountable to shareholders and therefore consumers cannot afford to squander capital on grandiose projects.

Finally, of course, there is the practical pragmatic argument. The government cannot finance the infrastructural development the country needs out of the national budget. Nor can it possibly borrow on the scale required. The only solution is to sell off as many state assets as possible to reduce national debt. And then let capitalists in pursuit of profits find the money for infrastructural development. Where private investors do not see profitable opportunities, the government can use some of the proceeds of privatisation to finance schools, dams, roads, houses, and other vital public goods.

Privatisation may not be a panacea, but it is certainly a means of killing numerous birds with one stone. It will help to reduce public debt and therefore the interest burden that falls on taxpayers. It will transfer the costs of inefficient companies from taxpayers to shareholders. It will greatly curtail malfeasance at the companies concerned, saving large sums of public money. It will make the companies in question much less vulnerable to capture or manipulation by politicians and their associates. Properly managed, it will generate greater competition, so bringing down the prices of electricity, transport, and other services, and thus helping to reduce the inflation rate. It will foster a much more efficient allocation of scarce capital. It will attract inflows of foreign capital and expertise. It will stimulate business confidence. It will revitalise the economy. It will stimulate growth, and the generation of new jobs for those inevitably displaced by the privatisation process. It will stimulate innovation. And it will ensure better services for the public.

Privatisation will reduce public debt, curtail malfeasance, promote competition, increase business confidence, attract foreign capital, stimulate growth, and revitalise the economy.

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