

## **Privatisation**

Although government has repeatedly stressed that it has a policy of privatisation, little has yet been achieved. Indeed, many still doubt government's commitment. There are two main reasons – other than raising revenues for government – for privatisation. These are improving economic performance and promoting wider share ownership. How will privatisation improve industry's performance? The men, machines and management remain the same before and after. Any difference in performance must come from changes in the constraints and opportunities newly privatised firms face. The autonomy of management is increased when statutory controls are removed. They are better able to follow their own commercial judgements in investment and planning decisions when politicians are distanced from them.

## **Competition**

But what leads us to expect that this increased level of discretion will be used for the benefit of society rather than the managers themselves? The answer lies in the competitive spur to efficiency which will now exist in the product market they operate in, or the capital market, or both. Firms will be disciplined to meet consumers' wishes by the threat of transfer of custom to other firms or alternative products, while the capital market imposes the threat of bankruptcy or takeover if resources are applied to relatively less valued uses. What if newly privatised firms tend still to be dominant, or near dominant, sellers?

A monopoly in the product market is not cause for concern provided entry is easy. Furthermore, if private firms – monopolists or not – fail to operate efficiently, that is reflected in their share price. This in turn makes transfer of controlling interests in the firm likely (or existing shareholders become discontented). A less quiescent group of shareholders will affect managerial tenure and performance. Privatisation thus provides incentives to achieve productive efficiency (the achievement of profits) and allocative efficiency (the keeping of prices close to consumer product valuations).

There are, however, reasons why privatisation (British fashion) could fail to achieve both the productivity goals and the objective of promoting wider share ownership and redistributing wealth. The reason for this latter caveat is embodied in the phrase “don't sell the monopolies off to Anglo”. If wider share ownership is the objective of privatisation, selling off state assets to the insurers, banks and mining houses with their complex cross-linkages would be self-defeating. Sales on the stock market would result in increased concentration and not wider share ownership. The wealth base of individuals in SA is much less than it is in Britain, where privatisation issues have raised the number of shareholders from three million to nine million in about a decade.

## **How to Privatisise**

Only a handful of individuals would become first-time share buyers. The bulk of any issues would be bought by existing institutions. This would increase concentration and conglomeration and would not increase competition in either the product or capital markets. The real objectives of privatisation in the South African case can only be attained by “giving” the State enterprises to the people – but how? The diffusion of wealth is the stated aim of most political groupings in this country. At present most of us hold wealth in the form of dwellings, pension or provident fund rights or have no wealth at all. The asset value (not the market value, which by definition is unknown at this time) of the top eight State corporations (excluding the Reserve Bank) was around R8bn in 1986. To give stock equal to roughly R10 000 per family would not only be egalitarian but would be an obvious way of distributing wealth to which one citizen has no more right than another. It would not dilute existing levels of wealth or change tax rates, risks or investment, and it would also accomplish the reduction of government's role in society.

Stock could be issued in each enterprise. It would be immediately marketable and individuals could sell or borrow against the collateral of their holdings. As the economic performance of the

enterprises improved, government's income from taxes on profits would rise. Individuals holding stock would have incomes increased by the resulting dividends. How could this idea be translated to reality? To implement this notion, application forms could be sent to each household. In rural areas, where population registers may be incomplete, a trustee body could hold the stock on behalf of the population as an interim measure.

### **The Poor and the Unemployed**

Different classes of stock could be issued to ensure that the young were not penalised. For example, if only adults over 21 were issued stock this would be inequitable to the children of parents who were reckless or unlucky and sold the stock before their children could inherit. The aged and elderly might receive smaller issues of stock than the younger and middle-aged. Transferability could be restricted for a period until people become used to being shareholders, in turn reducing the possibility of their being abused by "sharks at the factory gates". An alternative to issuing shares in each enterprise is issuing units in a mutual fund covering all parastatals. The alternatives are unlimited, only lack of vision need constrain us.

The main obstacle to privatisation is the vested interests of employees, managers and public servants whose jobs are at risk. One of the reasons for privatisation, after all, is redeployment of resources – including human resources. What of unemployment? To the extent that State industries are subsidised, the taxpayer would no longer have to support them. When he does he gets nothing for his taxes. (His valuation of a railway journey, for example, is only the cash he voluntarily exchanges for a ticket, not the price plus the tax he has paid.) Workers released from these industries will find jobs elsewhere. After denationalisation, their fellow citizens, instead of providing them with subsidies via taxes, with their increased income after paying (lower) taxes, will provide them with cash in exchange for equally valued goods. Management and worker opposition can be overcome by "buying out" the vested interests. People with large amounts of human capital in a particular job, industry or firm have rights. These rights should not extend to protection against consumer-induced demand swings or cost-reflecting supply shifts. Compensation is only merited in the face of unpredictable political changes (such as privatisation itself).

### **Empowering People**

Just as employees, customers and managers in Britain's privatised industries received issues of shares at beneficial rates to obtain their co-operation, so the opponents to privatisation in SA could be compensated. Perpetual security of tenure would not be offered. That is what would be sacrificed. But issues of shares at zero price over and above those obtainable as ordinary citizens could be granted. These issues would represent the capitalised value of the costs to the individual of being transferred to a privatised industry. Only in this way can the public servant and State industry employee be encouraged to agree. Privatisation can thus contribute to public service shrinkage. The change would be gradual and in the line with consumer wants and producer abilities, not instantaneous and costly.

Privatised markets and wealth redistribution are complementary. They really do give "power to the people".

*This Briefing Paper was written by Duncan Reekie  
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