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PRIVATISATION AND THE RDP A CRITICAL ASSESSMENT

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Recent proposals, particularly those emanating from Thabo Mbeki, to privatise state corporations in order to finance the Reconstruction and Development Programme (RDP), present a stark reminder of just how far ANC economic thinking appears to have shifted over the last few years.¹ Under an unprecedented ideological assault from big business and the media, initial commitments to public ownership, as derived from the Freedom Charter, first gave way to a compromise around 'the mixed economy' and 'growth through redistribution'. These terms now seem to belong to the distant past with the RDP being diminished both in its content and in the means to implement it. It scarcely seems credible that a privatisation programme, which was substantially brought to a halt by popular and organised resistance in the late-1980s, should now be warmly and so quickly embraced by the Government of National Unity.

The purpose here is four-fold. First, the general arguments for and against privatisation are briefly assessed in order to show how limited is the case for privatisation in terms of both the content and the scope of the factors brought into consideration. Second, the privatisation programme of the previous government is assessed in order to identify the underlying economic and political factors involved. This is done, third, in order to see how these factors have changed so that government may once again put forward privatisation proposals - only now with greater confidence of success. Finally, the likely impact of a privatisation programme is assessed against its supposed goals of financing and furthering a progressive social and economic reconstruction. Those less interested in the theory and the past may simply jump to this last substantive section, which is intended to stand alone even if at the expense of a little repetition from the earlier sections.

Some Theoretical Considerations

Privatisation involves a range of different policies, each potentially implemented in different ways. First however it is worth distinguishing between privatisation and deregulation (or liberalisation) of the economy. Privatisation involves the selling-off of state-owned assets to the private sector or the withdrawal of the state from certain areas of economic activity to allow the

private sector to take them over. Typical examples might be the selling of shares in a state-owned company, or the company as a whole, or the ending of state provision of services such as education, health or cleaning and catering.

In each case, conditions concerning the ability of the state and private enterprise to engage in economic activity will have been transformed. But this may also be brought about quite independently of privatisation, as in deregulation. Thus even if Eskom, for example, is not sold off, statutory or other obstacles to the private generation of electricity might be weakened. On the other hand, once privatised, Eskom's near monopoly in electricity supply might be preserved for the private sector. In the first case, there is deregulation without privatisation and, in the second, privatisation without deregulation.

The primary concern here is with privatisation of large-scale, state-owned enterprises and not with deregulation nor with other forms of privatisation. This is not because the latter are unimportant. Deregulation of transport, for example, is on the agenda and should be considered in conjunction with the potential splitting-off for privatisation of some of the assets and activities of South African Transport Services, in part prepared through its reorganisation as Transnet. Similarly the privatisation of health services and of education is of enormous economic, political and social significance.²

However, the theme that connects these various activities of expanding the private sector at the expense of the public sector is almost certainly less significant than the differences in the activities concerned, and the differing economic and political conditions that more generally determine their role and outcome. Consequently to include all areas of privatisation and deregulation together would tend to force extremely diverse areas of activity into a superficial and erroneous uniformity. Nevertheless the analysis that is offered here may have implications at a general level for those concerned with specific instances of privatisation and deregulation that are not encompassed by the sale of large-scale state-owned enterprises.

As privatisation has come to the fore over the past decade, so it has been complemented by a newly-emerged economics literature. This falls into two parts. The first, what Fine (1989a and 1990) has dubbed the new synthesis, argues that ownership as such does not matter. What is more important than whether an enterprise or sector is in public or private hands are the conditions governing its competition and regulation. Irrespective of the validity of this proposition, the way in which it is justified is open to criticism; for it depends upon a sequence of erroneous or dubious propositions that impede a fuller understanding of the role and determinants of public sector economic activity and its relationship to the private sector.

In particular it requires that: the more firms there are, the more competitive

and efficient is the sector; industrial economics is primarily confined to the consequences of optimising behaviour according to the conditions governing supply and demand, thereby leaving aside the role of institutions, structures and collective or other forms of behaviour; uncompetitive industries may easily be divided into natural or artificial monopolies according to the presence or not, respectively, of economies of scale; the act of ownership is essentially a residual claim to revenue after all costs have been covered, rather than a fierce contest to guarantee profitability that ranges over a complex variety of economic and political conditions; analysis may be focused upon static conditions concerning resource allocation rather than the dynamic creation of comparative advantage; the case for state intervention arises out of market failure where the potential failure of the state would be less damaging; other instruments of government policy, whether at the macro- or micro-levels, may be presumed to have guaranteed full employment, equitable distribution, optimal growth rate, etc; the economy may be considered in isolation from the broader factors associated with the exercise of economic and political power; and finally, industrial policy should be made up of competition policy (ease of entry and exit) directed at artificial monopolies and regulation (of prices) for natural monopolies - rather than of considering a fuller range of measures to promote successful industrialisation.

The second approach to the issue of privatisation addresses it more in terms of informational issues, thereby often seeking to complement the other approach by suggesting this is where ownership does matter, and that private is superior to state ownership in this respect. This is supposedly so because of principal-agent problems - that if the private sector is to be regulated for goals other than its own, who is to monitor the regulator? - and, in the absence of perfect and symmetrical information for all, private agents will know better what are their own interests and how to pursue them. Essentially each of these arguments takes as axiomatic that the market and private ownership can work perfectly in the absence of informational imperfections, so that even in their presence there is a prejudice against state intervention.³ It has to deal with more layers of informational imperfection as well as with more layers of conflicting motivation, as state officials are required to act in the general, and not in their own, interest.⁴

These may be seen as unduly abstract analytical considerations. They are matched by other postures that are equally far removed from reality. Indeed a further feature of the debate over privatisation is the common belief that the private sector has performed better than the public sector. Even by the criteria of operation of the private sector (leaving aside social goals and constraints that have governed the public sector over and above commercial considerations), this remains unproven and the evidence is mixed. There are difficulties in making comparisons of like with like, clearly the private sector sample will be biased by

survival (those going bankrupt will not form part of the sample), and privatised companies are liable to have been rendered profitable or to have more than usually favourable prospects in order to guarantee the sale of shares.⁵ Furthermore, the difference in performance between public and private sector companies *within* an economy is liable to be closer than the differences in performance between both taken together and the companies, public or private, of other countries. In other words, although not supporting the proposition that ownership as such does not matter, the difference in performance between the public and private sector will be heavily influenced by factors other than ownership alone.

In contrast to the 'synthesis' then, privatisation needs to be examined from an entirely different perspective in which it is possible to incorporate the factors that are otherwise notably absent. The approach adopted here is to see privatisation as a different form of *intervention* by the state (and not simply its withdrawal) in promoting the restructuring and accumulation of private capital. Thus, although it is accepted that privatisation signifies a policy break with the past, it may still represent considerable continuity with what has gone before. Specifically, as has been argued for the UK for example, privatisation has symbolised and sustained the lack of coherent, long-term industrial policy,⁶ an experience the UK shares with South Africa.⁷

In this light a number of different (types of) factors can be used to explain the pressures behind privatisation. First, previously developed patterns of public and private ownership across the sectors of the economy may be rendered inappropriate by changes in technology. This has been particularly so with electronics, a generic technology with the potential to forge linkages across a wide range of previously separate activities. The most notable illustration is provided by information technology in which communications (often under public ownership) and office equipment (usually under private ownership) have been forged as information technology, with data processing and transmission becoming increasingly inseparable. More generally, whilst the redrawing of barriers between the public and private sector may be driven by technological change, the process of diversification or fragmentation across sectors, for whatever reason, may impart a pressure for privatisation.⁸

Second, privatisation may be stimulated by the presence of high levels of unemployment or other labour market conditions in an attempt to affect wage levels or other changes in working conditions without directly implicating the role of the state as employer (although the power of the state as an employer can often be more effective than the private sector). This is important in the contracting-out of public services, but the preparation of companies for privatisation necessarily depends upon the state as employer, with significant change often

achieved *prior* to a sale to the private sector.⁹

Third, privatisation may be prompted by the presence of otherwise idle finance which may be used to purchase state assets, or to engage in productive activity on a relatively short-term basis until more profitable opportunities arise (if recession gives way to boom for example). The latter is especially characteristic of contracting-out of public services which were often historically undertaken by the state or local government precisely because of the failure of the private sector to deliver.

Fourth, privatisation is a shift in ownership which may both reflect and further the exercise of economic and political power. Quite apart from the conditions under which the sale takes place (which may favour those purchasing as well as those financial capitals that arrange the sales), as indicated in the second point above in the context of the labour market, privatisation shifts the conditions under which capital operates and is open to economic and political conflict. Thus, there is usually popular opposition to privatisation of health services on the grounds that they are liable to be less readily available even if, in principle, redistributing compensation could be paid to treat the poor. The capacity therefore to guarantee provision is liable to be politically less open under private than under public provision. Similarly, privatisation of public assets removes them from some forms of political power, and is desired by large-scale capital if the state's policies are not considered secure (as was the case with the prospect of an ANC government).

Fifth, privatisation through the selling-off of assets involves a reorganisation of the state's finances which may potentially relieve pressures on the state's budget deficit in the short run - but only at the expense of long-term prospects, except in the unlikely event that the privatisation itself directly or indirectly enhances the state's finances.¹⁰ It must, however, always be borne in mind that the financial motives underlying privatisation are not simply some neutral technical exercise in macroeconomic management. Rather, privatisation involves a particular response to the economic, political and ideological pressures upon the state, favouring some at the expense of others both in the content of policy and in the way in which it is conducted. At the end of the day, privatisation is liable to be about favouring large-scale corporate capital and its counterparts in the financial system.

Privatisation and the Demise of Apartheid

It is against this analytical framework that we will seek to assess South Africa's experience of privatisation. As a potential policy measure, it rose rapidly to prominence in the mid-1980s.¹¹ This appears to represent a dramatic reversal of the policies adopted in the 1970s when public sector investment, especially in

ESKOM, ISCOR and SASOL, proved to be the driving force behind the economy, accounting for as much as two-thirds of the country's gross investment. The economic stagnation in the 1980s was as much a consequence of the decline in public sector as in private sector investment.

Why was there this shift in policy and what was its impact? For some, privatisation is a policy whose time had arrived, not just in South Africa, but in a global context. In both the socialist east as well as in the capitalist west privatisation is associated with the fuller release of market forces as an antidote to the over-extension of state economic intervention and expenditure. At the ideological level, the supposedly beneficial forces of the market and individual incentives are set against the presumed corrupt and inefficient bureaucracy of the state.

Casual evidence seems to support the view that privatisation is a significant if not overwhelming economic development in recent years. The most favoured example is the United Kingdom, but denationalisation has also been adopted across a wide range of other advanced countries as well as in many developing countries. This global spread of an apparently uniform policy is, however, seriously misleading. The economies of the east and west, for example, are substantially different from each other and there is no underlying economic or political force or mechanism that has yielded an apparent coincidence of economic policy. Within the west privatisation has covered a wide range of differing economic activities and has been adopted for a variety of different reasons.

To draw a parallel between South Africa and other countries in this context then is to make a serious mistake. Not only its peculiar economic and social structures, encompassing the apartheid system, but also heavy state economic intervention, a peculiar industrial structure, and a high level of concentration of ownership of capital, has set it apart from other countries. In addition, the question of privatisation did not simply arise in the context of an otherwise neutral policy choice between public and private ownership, between the state and the market; it was rather a product of, as well as a response to, the crisis of the apartheid regime itself. To some extent it concerned the issue of how apartheid would strive to survive; it also concerned the economic, political and ideological conditions which would be confronted after the anticipated demise of the apartheid system.

As an economic measure, privatisation within South Africa had two main motives; one was to raise finance to boost government revenue, the other was to strengthen the position of corporate capital (although, as will be seen, these are not always compatible with one another) and to bolster a paralysed economy. This is not to suggest that other motives and effects were entirely absent, but they

were of secondary importance - which is why the privatisation programme was relatively short-lived. In short, Harold MacMillan's accusation against Mrs. Thatcher of selling the family silver (in her case to bribe the electorate), is a more apt description of the South African Government as it attempted to find the funding for the survival of apartheid. As the *Standard Bank Review* (1987) put it at the time:

Privatisation may therefore come to be seen as a very desirable method of funding increases in government expenditure with little or no pain.

In 1984, the Committee for Economic Affairs of the President's Council published a Report entitled *Measures which restrict the functioning of a free market system in South Africa*. It did envisage a certain degree of 'privatisation of government controlled undertakings' but these were mainly so that 'trading activities of administration boards in their territories be undertaken progressively and as rapidly as possible'. Indeed, the Report goes out of its way to list seven reasons why there *should be* state economic intervention apart from enhancing 'political stability', and it is generally favourably inclined towards such intervention despite observing the increasing share of economic activity then being undertaken and controlled by the state.

In 1983 the (Kleu) Report of the Study Group on Industrial Strategy was produced. It had been set up almost six years earlier. Whilst looking for a commitment to no further expansion for state-owned production, it gave a positive sign of approval to state enterprise, stating that 'the South African Railways and Harbours, the Electricity Supply Commission and the Postal Services are examples of enterprises where government ownership can be justified on the basis of efficiency'.

When the Government ultimately produced its response to the Report in a White Paper of 1985, attitudes had begun to change but not to an enormous extent except through a retrospective reading:

The State does not wish to compete with the private sector. In fact, the Government is *firmly committed* to allowing the private sector to develop its full potential and to privatising organisations in the public sector in an acceptable way with full cognisance of all hidden costs and subsidies.

By August 1987, with the publication of a White Paper *Privatisation and Deregulation in the Republic of South Africa*, there had been a distinct change of emphasis but there were still no concrete proposals. The spirit of the White Paper was to respond to the growing size of the state sector by privatising activities where it could, and it listed a number of measures of privatisation and deregulation which had already been adopted. These were all relatively minor

and predominantly concerned with localised government services. Nonetheless there was recognised, apparently for the first time, that state-owned assets made up a potential source of revenue, to be drawn upon reluctantly - in 'apartheid-speak' - to provide for the system's survival:

The Government also does not favour selling public sector enterprises or assets to the private sector just to obtain the non-recurring additional income from the proceeds. The Government is prepared, however, to consider the sale of assets in appropriate cases if it is convinced that this will be in the long-term interest of the Republic's inhabitants.

The White Paper was itself a response to a Discussion Paper prepared for the President's Conference in November 1986. The delay and some administrative reshuffles, together with an apparent concern in the White Paper for the interests of, and the potential obstruction by, state employees led those in favour of privatisation to be quite pessimistic about the Government's resolve. By February 1988 these fears seemed to have been proved wrong. In the Budget package sweeping measures for privatisation were announced, embracing all of the major state-owned corporations with the exception of those concerned with armaments. What had produced this rapid turnaround of policy?

The simplest explanation, paradoxically, would be that the Government had been slow to respond to policies that were both novel and had proven successful elsewhere. It is important to recognise that even Mrs. Thatcher's Government had only recently turned privatisation policy into one of denationalisation. Such proposals had not been present, for example, in the Tories' 1983 election manifesto. Rather they had been embarked upon in the wake of the perceived success and popularity of (local government) council house sales and, to a lesser extent, the privatisation of local authority services.

Thus the South African Government's privatisation plans do indeed have to be seen as a relatively rapid and dramatic break with the policy of the past - certainly in terms of the proposals themselves. This break is especially sharp in view of the crucial role that the state had recently played in the economy. It would appear to have posed in principle, if not necessarily in practice, a reduction both in state intervention in, and control over, the economy. Whilst it is normal in many countries for activities such as electricity, transport and iron and steel (if not something like the SASOL complex) to be undertaken by state enterprises, the significance of these for the South African economy is what is out of the ordinary.

It might be argued then that the change of policy came out of the mounting political pressures upon the state to moderate its economic role and the gathering support for free market ideology. This is again unsupportable. Indeed the ideology of privatisation within the South African context is not new. State

production had long been associated with the supposed dangers of communism (and was often coupled with a critique of the high concentration of ownership and monopolisation within the economy). This is, for example, the message to be found in AD Wassenaar's *Assault on Private Enterprise* published in 1977, and is posed even more clearly by McGregor (author of the South African *Who Owns Whom*):

There is a fine line between communism and socialism and South Africa's concentration of control in the public and private sectors makes us the nearest economy to socialism outside Russia.

It is scarcely credible that such sentiments could have commanded widespread and increasing support and form the basis for a shift of policy towards privatisation (even if such views do obtain a greater prominence as privatisation comes on to the agenda). The same is also true of the less dramatic anti-statism which views government as bureaucratic, inefficient and overspending. No doubt this intellectual currency had gained political support but not to the extent of prompting major privatisation plans.

If the privatisation plans did not come out of newly discovered economic policies nor out of significant changes in the balance of anti-statist feeling, it was in the changed economic circumstances that the roots of the move to privatisation must be discovered. Of paramount importance was the debt freeze of 1985. This made it increasingly difficult for the state to finance its own activities, for it placed the mobility of foreign capital at risk. And although the debt freeze and other measures were designed to restore financial credibility, the continuing crisis of the apartheid regime made only too clear the probability of a debt freeze being reimposed - if ever lifted - once financial difficulties recurred in the absence of a political settlement. Yet the regime's dependence upon foreign capital, although modest by international standards, was deepening until the debt freeze, with the ratio of external debt to GDP rising from 6.4 percent in 1980 to 27.1 percent in 1984. In 1987 \$8.5 billion of this foreign debt was owed by the Government and its corporations and \$14 billion by private banks and companies. Interest on public debt rose from 4.9 percent of Government expenditure in 1975-76 to 14.2 percent in 1985-86.

Thus creditworthiness in terms of the ability to raise loans formed the primary motive for privatisation. In a sense the state as guarantor of loans had lost its credibility. Consequently its own productive assets rather than its word in the form of government bonds were being offered as collateral. In short, the privatisation programme represented the selling-off of the family silver in order to raise the funds to finance the apartheid regime.

In this light, the privatisations do have some resonances with similar measures taken in other countries, although not with those in the UK. Indeed the privatisa-

tions in Nigeria, Mali, the Philippines, Mexico, Brazil and Tanzania have been forced through by the IMF along with austerity programmes as a condition for its making loans. This is exactly what happened in South Africa although it was not so explicitly formalised nor dependent upon IMF conditionality. Significantly, for example, the privatisation measures were announced to the accompaniment of a proposed freeze on public sector wages and a revision to the tax system designed to cast the tax net wider and deeper through the introduction of VAT in 1989.

What Were the Proposals?

After the Budget Speech of February 1988, there was a much clearer commitment to the selling-off of state enterprises but the details of policy remained unformulated or undisclosed. By July more details had emerged along with a great deal of speculation. First, the Government stated the intention of retaining 51 percent ownership of the enterprises, thereby illustrating that revenue was the prime motive, for continuing state majority control does not release the presumed advantages of market forces.

Second, the same motive was revealed in the policy of the Government to retain the income from the sales - rather than allowing the enterprises themselves to use it for investment purposes. In the words of Finance Minister, Barend du Plessis:

The emphasis should also be on the opportunity offered by privatisation for the release of government funds at present locked up in these enterprises. Such release of funds could be used for alternative purposes by government.

Third, whilst it was claimed that the funds generated would be earmarked for priorities - capital expenditure rather than current expenditure to reduce the state debt followed by infrastructural funds for the 'developing areas' and to promote small businesses - this is seriously misleading. Indeed the Government has a pool of revenue from which expenditures are made. Ideologically it might wish to argue that the receipts from privatisation are not, in some sense, being wasted. But there are always strains on the Government's budget as a whole and it is purely propaganda to argue that some extra revenue is being used for one particular purpose rather than another.

Fourth, speculation was concerned with which state enterprise would be privatised first, although a state share in SASOL I had already been sold.¹² There were two favoured candidates, each with very different characteristics, ESKOM and ALUSAF. But each illustrates the importance of the revenue motive. ESKOM, with fixed assets valued at over R35 billion, had already long been highly active and successful in the market for international finance. Loans from

abroad grew at 64.1 percent per annum from 1974 to 1982, during which time there had been a flight of private sector capital from South Africa. It had been able to command long-term loans (unlike most other loans which had often been more short-term) and, symbolising its creditworthiness, it issued the first Euro-Rand bond. ESKOM had been equally successful in negotiating loans in the domestic market. In short, it had issued the most treasured of South African securities on both domestic and international financial markets.

The Government hoped to use this credibility to raise finance through the selling-off of its assets. That the revenue motive had been paramount is demonstrated by the common belief that ESKOM had already achieved high levels of efficiency, and that little was to be gained through subjecting it to market forces. Commentators as late as 1987 argued that the privatisation of ESKOM did not seem to be on the cards for the foreseeable future. The organisation was run well and provided a reasonable service. ESKOM was also technically innovative but there were, however, areas which government appeared to consider sacrosanct, eg the privatisation of ESKOM.

In addition, over the previous few years ESKOM had gone through a reorganisation that had, amongst other changes, led to the loss of 10 percent of its staff, thereby leaving little potential room for further cost savings of this sort except in line with increased productivity or decreased demand.

The importance of ESKOM as a borrower from international and domestic money markets is in part due to its bonds having enjoyed certain tax privileges (akin to those offered to insurance companies and pension funds). The announcement of its future privatisation led to speculation that these privileges would be withdrawn and the value of its stock fell accordingly. To restore ESKOM's financial status, the Government immediately announced that there would be no detriment to existing stock and, in ESKOM's own words:

The minister's announcement countered much of the uncertainty and should enable ESKOM to fund itself during the transition phase from a public to a private organisation.

The second favoured candidate for early privatisation was ALUSAF, the partially state-owned aluminium producer with assets estimated at R500 million. It was operating profitably with exports at 50 percent of its output. Situated close to Richards Bay, it was less liable to be subject to a rise in transport costs or disruption. Thus the attraction of ALUSAF as a candidate for privatisation was its apparent secure profitability.

In the event, the privatisation programme passed over both ESKOM and ALUSAF and incorporated much less promising assets such as ISCOR and SASOL. However, even if some of these assets had been sold, it does not necessarily mean that an equivalent level of finance overall would have become

available to the Government. A useful starting point in recognising this is to envisage the capital market working in some ideal way. In this case, the Government ought to be able to raise whatever finance it likes by issuing Government bonds (although it might raise the rate of interest as it borrows more by doing this). Consequently, if it attempts to sell off state-owned assets as well, those who wish to save will see this as equivalent to holding bonds. Accordingly, what the Government gains in privatisation it loses in the bond market.

Arguments such as these have been used to criticise the privatisations in Britain if they are seen as serving any purpose in relieving financial constraints on the government. Whilst, of course, the measured government borrowing requirement may be reduced, the net effect on financial markets is not measured by this alone.

In reality, however, the capital markets never work in this ideal fashion, particularly in South Africa. Indeed, the privatisation programme is an explicit recognition of this as the Government considered that its productive assets offered a greater sense of security to potential lenders than its own bonds. Was this then liable to be a source of expanded credit?

First, it must be recognised that assets may be purchased for one of three reasons - to make a short run capital gain (in anticipation of the share value rising in the early future); to balance a level of return in the long run against a level of risk; and to secure productive assets that can be integrated with those already owned.

Second, there is the question of who will buy the assets concerned. There are three broadly defined potential customers - foreign investors, small-scale domestic savers and the large-scale shareowners. The motive for each will depend upon the level at which the shares are offered. To the extent that the price is lowered, clearly the Government will realise a lower level of revenue. There were other factors depressing the price likely to be achieved, not least the reduced confidence in the stock markets around the world following the crash of October 1987, and the sheer size of the transactions coming on to the market all at once if they were to have any financial impact for the Government.

In addition the Johannesburg Stock Exchange had not recovered as well as other financial centres following the crash of October 1987 because of lack of confidence in the price of gold. Investors in privatised utilities in the developing and developed world had also offered a wide and increasing choice of investment possibilities, with an estimated \$50 billion of assets already privatised (from 55 enterprises) in the first five years of the 1980s and a further 2000 with value of \$130 billion planned for sale by the end of the century.

All of these circumstances severely limited the prospects for South Africa to benefit even in the short term from the revenue to be gained from a privatisation programme. Either too many shares would be sold, depressing the price, or

finance would be crowded out from purchasing other shares or making other forms of saving (including government bonds).¹³

This is all on the presumption that a state-owned company is sold off in one go. If however ESKOM, for example, were sold off in tranches, then there would be an existing price on the stock market following the sale of the first tranche. This price will tend to be reduced by further sales of shares and, in any case, this would tend to eliminate the expectation of a higher share price post-privatisation as a motive for buying. Further, given the sanctions campaign, the trend of disinvestment and the instability of the apartheid regime, there were few reasons for believing that simply substituting productive assets for Government assurances would suffice to increase the expectations of a secure long run rate of return in South African shares.

ESKOM officials, for example, are reported as having consulted the British electricity supply industry which was then preparing its own plans for privatisation. They dealt with a checklist of 30 or so key items. But none of these would have been able to counter the continuing boycott of South Africa by overseas institutional buyers (nor the reportedly cold shoulder that the ESKOM delegation received from bankers and stockbrokers).

Consequently there was little chance of privatisation yielding floods of foreign investment. Nor was there liable to be an enormous expansion of domestic saving, particularly in view of stagnant income levels amongst the white population. Thus the success of privatisation depended upon the large institutional investors and whether they would be prepared to increase their funding of the apartheid regime in return for a stake in what were state-owned institutions.

It seems, then, that for a substantial privatisation programme to have materialised, the support (probably in advance to guard against an unsuccessful flotation) of the major corporations would have to have been secured. This may have been motivated by the availability of financial surpluses, the fear otherwise of higher taxation, and to procure previously state-owned assets prior to the emergence of an ANC government. On the other hand, the corporations may have preferred to export as much finance as possible, whether legally or not, and to continue to rely upon their close coordination with state corporations even though not directly owning them. Whilst estimates differ, (illegal) capital flight from South Africa may have been as much as seven percent of GDP in the period leading up to 1988, Rustomjee (1991). This is hardly indicative of commitment to domestic investment by large-scale private capital. And further in privatising ESKOM and ALUSAF, the state would have lost ownership of the companies best able to borrow on domestic and international markets without being sure that a net increase in funding would have been available to the economy.

The exact process by which the privatisation programme was actually brought

about is a matter of speculation, at least until official records become available. It proved much less in practice than would have been anticipated from the scope of the policies being peddled after the debt freeze. The estimated gains in short-term revenue may have been limited, and the large-scale corporations may have resisted being embroiled in a privatisation programme from which they had little to gain - given their already secure integration with state corporations. Further, private capital may have feared the intensification of industrial conflict if compromised in a privatisation programme and the prospective threat of renationalisation with less than full compensation. What is striking, however, was the lack of any impetus to privatisation deriving from the imperatives of production, productivity and investment. It was a strategy for survival, reflecting the limited extent of commitment to coherent industrial policy making and reorganisation that had long been characteristic of the apartheid regime.

First Time - Farce; Second Time - Tragedy

In the previous sections, it has hopefully been established that the major motive for embarking upon a privatisation programme in the 1980s was to bolster the ailing apartheid regime's short term finances. The chances of success even for this limited aim were quite remote. And, quite apart from potentially exposing even further the weaknesses of the country's finances should a privatisation issue have failed, the policy might also have backfired in generating considerable popular and industrial unrest.

Moreover, if the reversal of policy stance, from promoting state enterprises to privatisation, is put in proper perspective, it can be seen to represent a continuity in serving the interests of large-scale capital. State enterprises had played a major role in building up the mining and energy sectors and much of the large-scale industry around them such as heavy chemicals and mineral processing.¹⁴ Privatisation would have transferred state assets to the large-scale corporations at low prices and potentially beyond the reach of a prospective government.

In the event, only one major denationalisation was implemented, that of ISCOR. This proved successful in that the issue was oversubscribed by more than four times, and investors won an immediate ten percent premium over the fixed selling price of R2 per share. Subsequently this premium was eroded, a factor discouraging further denationalisations. Significantly ESKOM, the most valuable state corporation and the most amenable to attract investors, had been 'prepared' for privatisation but was not sold.

The formation of the GNU serves more to change the circumstances within which a privatisation programme can be launched than it does to change its impact beyond the higher price that might be obtained for the family silver. The irony is that, having beaten off the apartheid regime's privatisation programme,

the ANC is moving to re-introduce it in the more auspicious circumstances for potential investors that are provided by the constitutional settlement. Whilst the cover for doing so is in order to provide finance for the RDP (as opposed to the apartheid regime's faltering finances), this is based on a fallacious perspective. For the reconstruction of the economy depends upon a long-term strategy and vision, not one of short-term management of a financial crisis. The net effect of a privatisation programme will be to consolidate the power of large-scale corporate capital and to undermine the capacity to deliver economic and social policies that constitute the RDP. Why is this?

Privatisation is not Reconstruction

Comparative experience suggests that active state intervention and ownership is essential for, if not guaranteeing, successful economic and social reconstruction. It is worth noting that the nationalisations that took place of the 'commanding heights' of the British economy after the second world war (coal, rail, electricity, gas, etc) were prompted by the success of war-time control as well as by the abysmal record of the industries before the war when in private hands. Paradoxically, the very success of the state sector in reconstructing these industries over the post-war period is what has enabled them, even if mistakenly, to be returned to the private sector over the past decade.

In some respects, the same is true of the South African economy although many of its industries have been nurtured from scratch under state tutelage. In addition, the task has yet to be completed. Indeed South African industrial development has been and remains seriously deficient. This is despite the misleading view that primary production (agriculture and mining) has become less important to the economy. In fact, South African industry is seriously distorted, continuing to rely heavily upon the processing of primary materials (as in steel, SASOL, and food industries) and the manufacture of consumer goods, primarily for privileged white consumers, at domestic prices that are not internationally competitive. A major weakness of South African industry is the relative absence of productive capacity in intermediate and capital goods. This has a negative impact on the economy in a number of different ways:

- (a) Economic expansion leads to growing imports of these goods and so creates balance of payments pressures.
- (b) Up- and down-stream integration of economic activity is poorly coordinated, in areas such as the provision of mutually reinforcing access to finance, markets and technology.
- (c) Employment generation, broadening of the skill base, and the opportunities to diversify into new sectors of industry are severely constrained.

These weaknesses of South African industry are not accidental nor are they

simply the consequences of apartheid. Rather, they reflect the inheritance of *past* mistakes in economic policies, although these policies were designed to build up large-scale Afrikaner capital and integrate it with large-scale 'English' capital. They also reflect the way in which the private sector, dominated by a few multinational corporations of South African origin, *continues* to be committed to a speculative and international orientation with little or no regard to the industrial reconstruction of the domestic South African economy.

More specifically, South African industry has suffered from stagnation in investment since the early-1980s, whilst South African corporations have engaged in:

- (a) capital flight,
- (b) speculative purchase of industrial and other assets as disinvestment was prompted by international sanctions, and
- (c) heavy lobbying for policies to promote their interests, whether materialising under the previous apartheid regime or the current GNU. This is most notable, for example, in the pursuit of state-subsidised mega-projects and the pressure for privatisation, in part to undermine the state's influence over the economy as well as to obtain productive assets cheaply.

In short, South African industrialisation has been a *failure*, despite some notable achievements on the basis of a distorted development, and this is a consequence of the continuing failure of both the state and the private sector. Nor is the failure of the private sector a consequence of the role of the state. Indeed, at least over the past 20 years, state economic policy has been driven by the interests of large-scale South African capital. It follows that the solutions to industrial weaknesses do not rest upon the withdrawal from state industrial intervention and reliance upon the market (by which is meant, in practice, a few large-scale corporations). Rather, there is the strongest possible case for more extensive industrial policy of a different type and with the different objectives.

For example, the recent experiences and successes of the Newly Industrialising Countries - NICs - such as South Korea are now widely recognised to have been the result of extensive and concerted state economic intervention to create internationally competitive industries. Even the World Bank has been forced to concede, after years of asserting the opposite, that successful industrialisation has been heavily dependent upon active state policy (although it seeks to retrieve its ideological stance by arguing that the state has undertaken initiatives that the market would have brought about had it been working perfectly!). Specifically, in the South African context, the World Bank has accepted that public sector investment has the effect of crowding in, not crowding out, the private sector, a point heavily emphasised by the MERG Report. Consequently, concern should be less with the false dichotomy between the role of the state and the role of the

market, since both necessarily interact with one another. It is more important to identify the policies that must of necessity be undertaken and the means by which to achieve them. Privatisation is an abandonment not only of policy but of the scope of potential policy.

Nor can privatisation be defended on grounds of raising finance for implementation of the RDP. There are a number of equally simple fallacies in this stance as well as further drawbacks:

- 1) As Harold MacMillan eloquently remarked of the UK privatisation programme, this would be a matter of selling off the family silver. To the extent that the privatisation programme gives up one physical asset (the public corporations) for another, it has done nothing to raise extra revenue. It would necessarily forego the revenue that would accrue on an annual basis from the public corporations and would be forced to borrow in order to make up the difference (or cut expenditure and raise taxes). This it could do, if thought desirable, to fund the RDP directly.
- 2) Inevitably, the privatisation programme would be wasteful in transforming the state's physical assets into finance. The process of privatisation is itself expensive in terms of consultancy fees, advertising, share issues, etc and may cost up to ten percent of the value of the revenue raised.¹⁵ Experience suggests that in order to guarantee a successful privatisation, in terms of a complete and assured sale, the share price has to be set at a level below real worth, partly because most companies' shares are usually only sold piecemeal and not all at once (except in a take-over or merger which tends to raise the share price). This is widely reflected in the immediate rise in a privatised company's shares following flotation, and has the effect of rewarding those who are already in the advantageous position of being able to afford to purchase shares, further consolidating inequality in wealth. In addition privatisations place unusually large demands upon financial markets and tend to crowd out the availability of finance for other investments.
- 3) There is no evidence nor guarantee that the finance raised through privatisations will in fact be earmarked and used for progressive policies, such as the RDP in the South African case. In fact, the funds simply become a general part of government revenue, and it can always be said that whatever is spent on the RDP came out of the privatisation fund. Further, funding the RDP out of privatisation revenues is to concede the principle that its policies are contingent upon a successful raising of revenue so that they are always a

hostage to the more general fortunes of the economy and the state's finances. Moreover, those supporting privatisation as an economic policy more generally are usually conservative in economic outlook and will be prepared to sacrifice the RDP, and even to abandon it, whether privatisation is successful or not. In short, the RDP should take priority as an economic policy and not be made contingent upon a privatisation programme. The record is that privatisation goes along and builds up a momentum with other regressive, 'market-led' policies. This is especially so in the UK, for example, where privatisation has witnessed the most dramatic redistribution of income and wealth in favour of the already wealthy - exactly the opposite of what is required in South Africa.

- 4) Privatisation is not itself a simple policy to implement, like buying or selling food in a supermarket. It requires assets to be identified and valued, finance to be raised, the conditions under which the company will operate under private ownership to be determined, etc. This has two important drawbacks - the first is that scarce resources and skills in management and government will be commandeered to implement the privatisation programme when they could more usefully be used to implement the RDP directly. Interestingly, one of the first arguments used against renationalisation concerns the demands it would place upon the legislative programme of the government concerned. Exactly the same applies to privatisation! The second such drawback of a privatisation programme is that it will strengthen what are already bloated institutions in South Africa dealing in the speculative buying and selling of financial assets. The real need is for financial institutions which are primarily geared to the raising and directing of funds into productive investment.
- 5) Policies to finance the RDP out of a privatisation programme are not only doomed to failure for the reasons given, since privatisation can only change (and worsen) the balance of the state's finances, but are reactionary in suggesting, erroneously as has been shown in the MERG Report, that the major constraint on implementing the RDP is the availability of finance. In short, institutional and political effort needs to be put into the RDP, rather than undermining it by a privatisation programme.

Apart from rejecting privatisation as a means of funding the RDP, there are arguably even stronger reasons for opposing privatisation more directly in terms of its broader impact on economic policy. As has already been indicated, the major problems with South African industry are:

- 1) Lack of investment

- 2) Lack of capacity in intermediate and capital goods
- 3) Lack of integration across different sectors of the economy

A privatisation programme will only worsen these problems. Evidence of privatisations elsewhere, and especially in the UK where the programme has lasted longer and cut deeper, is that:

- 1) In the period leading up to privatisation and subsequently, the main priority is to ensure short-term profitability rather than long-term industrial restructuring. This is inevitable given the transfer of the assets to the private sector. It leads to major closures of capacity and huge job losses irrespective of the wider implications for the short- and long-term functioning of the economy as a whole.
- 2) Not surprisingly, in diversifying from their previous role of providing, however effectively, a public utility, privatised companies seek to engage in financial restructuring, mergers and acquisitions, and international operations that do not have any direct bearing upon domestic industrial regeneration nor upon meeting the basic needs of their customers. In Britain the privatised electricity utilities have now just become more readily open to acquisition. The first hostile bid has been made by a conglomerate which wishes to set the utility's profits against its own short-term losses, thereby gaining by not paying almost R1.5 billion of taxes on the utility's profits. In other words, industrial restructuring becomes driven by strategies that have nothing to do with reconstruction and development. And it is precisely such shenanigans that are characteristic of the South African financial system and its failure to develop satisfactory finance for industrial investment. Privatisation will consolidate, not address, these weaknesses.
- 3) Privatisations tend to create private monopolies. These need the closest possible regulation. In general, regulatory bodies do not have sufficient powers to enforce appropriate strategy upon the companies concerned being confined to prices and other conditions concerning delivery of services. Regulation of this sort may be considered as an abandonment of industrial policy to an indirectly accountable body with limited powers and information - it cannot determine levels of investment, research and development, training programmes, collaboration across sectors, export performance, etc. In addition, effective regulation requires the use of a highly skilled and scarce workforce which would be better deployed in formulating and implementing industrial policy directly. It will also be continuously engaged in counter-productive legal and other wrangles with the privatised com-

panies over its exact powers and the interpretation of its rulings, with the companies consistently exploiting their wealth and power to ensure precedence of private profitability over public provision of basic needs.

- 4) Privatisation will create a company ethos of self-advancement and personal gain rather than of public service and meeting of basic needs. Those currently in charge of public corporations will be in a powerful position to exploit the need for their cooperation should privatisation proceed. Such a scandal has already emerged in the UK where more than fifty directors of previously publicly-owned utilities have each made more than R5 million more in salaries, share options and pension rights than they would have before privatisation. At a lower level, whilst workers will often gain on a much smaller scale from share options, these gains do not persist and may even be set against wages. Small-scale shareownership in a privatised company is no substitute for broader participation in determining corporate policy. In addition, worker shareholdings necessarily reinforce existing inequalities between workers. The better and the more secure your job in a privatised corporation, the more shares from which you are liable to gain. Those that remain in the public sector, let alone women, for example, scraping a livelihood in the rural areas, are proscribed from participating in this putative form of redistributing wealth.
- 5) The latter is but a particular example of a more general and crucial point, crucial in the South African context. Privatisation will inevitably lead to a further consolidation of wealth and power in the hands of the large-scale conglomerates who are the only ones capable of financing the purchase of public corporations. In terms of benefits to individuals, these will accrue disproportionately to those few who are already extremely wealthy.

Concluding Remarks

Debate on privatisation in South Africa has been marked not only by sudden and extensive shifts in the balance of opinion but also by a lack of sophistication and depth. At the end of the day, support for privatisation is probably more motivated by a sense of political compromise than by a sense of practical and principled purpose. The vast majority's desire for redistribution is to be appeased by tying this perverse form of reconstructing ownership and control to an ephemeral mechanism for financing state expenditure on their behalf. More substantively, it is intended to satisfy big business whether as the direct beneficiaries in taking over ownership, or in terms of a symbolic commitment both to private enterprise and to fiscal responsibility. With the financing of the

RDP contingent upon the revenues derived from privatisation, the GNU has internalised the conditionalities imposed by the World Bank and IMF even without the benefits of a negotiated loan in return for these backward policies.

Such efforts to court the elusive goal of business confidence is a recipe for disappointment as has been dramatically revealed by recent events in Mexico. Do all they want and they can still let you down. Whatever the motives or reasoning underlying the privatisation programme, they are seriously deficient in logic and ethos. Indeed, privatisation does not offer the means of realising the RDP, nor does it merely represent its erosion and redefinition. It is its anti-thesis - consolidation of, and continuity with, the economic power and policies of the past.

NOTES

1. See Fine (a1995) for a recent discussion.
2. See the discussion in MERG (1993).
3. For a thorough rebuttal of this view in the context of industrial policy more generally, see Chang (1994).
4. For a critical assessment, see Rowthorn and Chang (1992) and Chang and Singh (1993). See also Cook and Kirkpatrick (eds) (1988).
5. For a review of the evidence on public and private sector performance, see Chang and Singh (1993).
6. Particularly in the energy sector, for example, it has signified a persistence in favouring nuclear power at the expense of the coal industry, fuel consumption at the expense of conservation and energy efficiency in use, and lack of coordination across sectors involved directly and indirectly in the provision and use of energy. See Fine (1989b and 1990). See also Fine and Poletti (1992) on the privatisation of British Steel.
7. For a full discussion of the lack of coherent industrial policy in South Africa and the reasons for it, see Fine and Rustonjee (1995).
8. Significantly in South Africa, as previously in the UK, this has prompted the separation of postal and telecommunication services, the better to introduce 'market forces' into each.
9. The most dramatic case in the UK has been the coal industry, with employment falling over a decade from over 200 000 to a few thousand only. The same, if less severe, drop in employment occurred in the steel industry prior to privatisation. Employment levels have also tended to continue to decline following privatisation.
10. It has recently been revealed that the privatisation of British Coal entailed the government writing off a debt of £1.6 billion, being paid back at the rate of £100 million per annum, in return for a sale price of under £1 billion!
11. For some of the South African literature at the time, see Crankshaw (1986), de Beer (1987), Hofmeyr (1988), Innes (1987), McGregor (ed) (1987), Mahadea (1988), and du Plessis (1988).

12. The choice was given by the following:

Assets of Major Public Enterprises, 1986	
Company	Fixed Assets
	R million
Eskom	35 664
SATS	18 614
Post Office	8 297
Land Bank	7 939
ISCOR	3 894
IDC	3 058
Armscor	1 706
Alusaf	500
Foskor	126

See McGregor (ed) (1987) for these and other assets with a potential for privatisation such as government-owned land and buildings.

13. In the case of the UK privatisations, for example, the evidence is that many small-scale savers simply withdrew money from a building society to purchase privatisation shares, resold the shares at an increased stock market valuation and then put their money back into the building society (to await the next privatisation).
14. This is discussed in Fine and Rustonjee (1995) in terms of a mineral-energy complex, straddling large-scale public and private sector corporations.
15. Almost R1 billion has been spent over the past ten years simply to advertise the British privatisation programme.

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