

Allocate all Eskom and SAA shares to citizens

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South Africans in general and taxpayers in particular have become accustomed/hardened/seasoned to the perennial, colossal financial blunders otherwise known as South African Airways (SAA) and Eskom. We succumb to an overwhelming sense of helplessness because the situation seems so disastrous and irrevocable we cannot even conceive of a feasible alternative.



Expenditure wasted on SAA has undermined competitive conduct in the airline industry and allows it to brazenly flout competition. It should cease operations immediately. (Image: Wikipedia Commons)

However, the situation can be rectified. What is urgently required is the application of economically rational thinking. But first it is necessary for us all to understand the magnitude of the calamity these behemoths have visited upon South Africans.

The total amount of financial assistance received by SAA from taxpayers (directly from the government and through Transnet) since its incorporation on February 1 1934 is R24.7bn. These contributions could properly be termed subsidies as the funds were consumed by losses suffered by SAA.

SAA should be grounded. Now

In the past 10 years about R1.8bn a year has been thrown into the abyss. This includes the millions fleeced by so-called turnaround experts and political deployees, all of whom have eventually ridden off into the sunset with saddlebags full of taxpayers' hard-earned money, leaving SAA and citizens poorer than before. All this expenditure wasted on SAA has undermined competitive conduct in the airline industry and allows it to brazenly flout competition. Its operation should be halted immediately.

In August 2013, Eskom announced its new power station, Medupi, would cost R105bn at the most, excluding interest incurred during construction - this came to about R30bn, which increases Medupi's price to R135bn. This figure, however, excludes the cost of the flue gas desulphurisation plant. For this, we have to add another R10bn-R15bn. Thus, Medupi is likely to cost at least R145bn-R150bn.

In addition, economist Dawie Roodt has calculated conservatively that, because of Eskom's inability to provide enough electricity, the economy as a whole loses at least R300bn a year.

No financial ramifications for failure

Despite these losses to our economy, the situation persists. Why? Because, besides the ideological commitments and patriotic sentiments about the survival of state enterprises, SAA and Eskom provide employment opportunities and government tenders for favoured individuals and interest groups.

To understand why state enterprises fail we must begin by noting the fundamental weaknesses that arise from state ownership itself. State enterprises lack effective incentives for employees and management because the link between performance and remuneration is nonexistent. If the enterprise proves financially unviable, the minister in charge and those involved in the business are not affected financially. In the private sector if you do not deliver, the business goes bust and you are out of a job.

It has been demonstrated over the years that no quantity or quality of business expertise thrown at state enterprises can salvage them and place them on a profitable footing. Where state-run enterprises show improvement they should be benchmarked against private competitors in the same country, on a cost-to-capital basis. They will not measure up. The result would underscore my point.

Give them to the people

In the case of SAA and Eskom, the solution is easy and could be a model for other state enterprises to follow. Liberate the capital locked up in these enterprises by allocating all shares to the people of SA. This would lead to the private sector taking over the airline, forcing it to compete fairly with other airlines. As for Eskom, dismantle the monopoly and allow independent power producers to generate electricity. These measures can be implemented at no cost to the taxpayer. And that can only be a good thing.

If further motivation is required to turn loss-making state enterprises into profitable, going concerns, ponder the opportunity costs of these projects in terms of how many RDP houses, hospitals and schools, roads and harbours, drinking water facilities, etc. could have been built with wasted valuable taxpayer funding. Think too of the many other state enterprises that have an insatiable thirst for the hard-earned income of taxpayers.

It is amazing that the government allows these failing behemoths to exist when the nation's economy is shrinking and unemployment hovers near 40%. SA is now the second-largest economy in Africa. Sadly, it is conceivable our economy will degenerate further, thanks to the government's obstinate, errant policies.

Source: *Business Day*, via I-Net Bridge

ABOUT THE AUTHOR

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