

"Power to the people" means economic freedom, not state paternalism

By [Chris Hattingh](#)

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Writing in the 7 March 2021 edition of the *Sunday Times*, public enterprises minister, Pravin Gordhan indicated that he believes well-run state-owned enterprises (SOEs) are important as the free market "is not a panacea for resolving economic and institutional challenges".



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Before the Covid-19 pandemic hit South Africa, more than 10-million people were unemployed. The average growth rate hovered between 1–3%, hardly scraping 4%. According to the 2020 edition of the Economic Freedom of the World (EFW) [report](#), South Africa ranked 90th in the world, after a high of 58th in 2000. It appears that, after years of dedication to state controls and 'state-led growth' – with the concomitant government interventions in all facets of economic and social life – the much-promised prosperity has not been realised.

My advice to Gordhan would be:

“ Despite this government's inability to trust in citizens' ability to create wealth and good lives without relying on the state, it might just be time to try a little bit of free market medicine – you'd be amazed with the results. ”

Gordhan also wrote, “The restructuring and reform programme for the SOEs is pragmatic and devoid of any ideological fundamentalism.” One struggles to see anything more ideological than the current government's view that it needs to run all kinds of SOEs – and that it should play such a massive role in virtually every aspect of citizens' lives. Everyone has an ideology – what matters is applying an ideology that is both moral and delivers the best outcomes for most people. The free market, in other words.

Of the given worldviews and ideologies on offer, which is more based in reality? The one that tries to force all citizens to live a certain way based on the edicts of bureaucrats and politicians; or that which recognises the myriad differences between individuals, and that they best way for them to live and work together is in a context underpinned by the rule of law, strong property rights, and freedom of choice?

The government's obsession with SOEs

SAA's latest bailout stands at over R15bn. Eskom's debt was more than R480bn in 2020. Transnet and PRASA are mere husks. In his latest budget speech, finance minister Tito Mboweni indicated that the Land Bank would receive a R7bn bailout. The list can go on and on; the fundamental point is that the government's obsession with SOEs – and more fundamentally, the desire to control the levers of the economy to implement 'transformation' (simply government's ideological preferences) – are succeeding only in creating more unemployment and hardship.

Due to vested interests from government, SOEs cannot respond to market forces like supply and demand as nimbly as companies in the private sector. Gordhan can propose reams of turnaround plans – at best, the incentives underpinning SOEs can be only 'improved' as part of a box-ticking exercise.

At worst, the incentives will always encourage corruption, because of the political connections and potential wealth linked to managing an SOE. And, ultimately, those South Africans who most need basic infrastructure services are left by the wayside.

Ripple effects of failure

When (not if) an SOE fails, it drags down a wide range of players in the public and private sectors, and the ripple effects are further felt by citizens who have no choice (due to the state preventing competition in that sector) as to where they get the given service. For example, when Eskom fails, a whole country sits without electricity, thanks to government protecting its monopolistic position. When a business fails – as it rightly should if it cannot adequately serve customer's needs – it only affects the customers of that business, who will then likely flock to a better competitor.

Free market solutions do not pretend to be utopian, unlike the political class' belief that one can simply pour money into SOE blackholes and all their operational problems will be solved. One should not aim at utopia in any case – that route only leads to various false dawns (or 'new dawns') and power-grabs of various forms. What one should implement, is the only moral economic and social system the world has ever known, and which delivers the best outcomes on average – the free market.

As indicated in the data of last year's EFW report, those countries that occupy the top quartile of the index had an average per capita GDP of just over R650,000, compared to R84,800 for those in the bottom quartile. The poorest 10% of citizens in the freest markets earn an average income of over R181,000 per year, compared to R22,900 for the poor in countries with a more economically involved government.

If Gordhan and others in government are serious about improving people's lives, they will implement the pro-economic freedom reforms the country desperately needs. Economic freedom both ensures greater capital formation and investment – creating more jobs – and encourages an environment in which greater competition lowers the prices of goods and improves the quality of services. Only in freer markets can more people create wealth, thus they are better for poorer people than central-command economies.

Free market solutions are premised on the rules of reality, the understanding that price mechanisms work best when the state doesn't distort them, and that citizens deserve the freedom to tackle the challenges they face, working voluntarily with those around them. For all the money and skills one could place at the fingertips of the state, it will never be able to allocate resources as efficiently as the market. The (un)intended consequences of government interventions are, more often than not, economically devastating.

“ Where ‘state-led growth’ is redistributionist and paternalist in nature, free market solutions are aimed at dignity and agency. ”

It's time for government to acknowledge its shortcomings, drop the hubris, and let go of most, if not all, its SOEs. If the state wants to continue playing a role in people's lives, it should use its dwindling resources to provide good services to citizens who desperately need them (perhaps basic sanitation, instead of worrying about planes?), and remove the forest of red-tape that inhibits private sector innovation, job creation, problem-solving, and competition. With an ever-increasing government debt-to-GDP ratio (we will probably hit 100% by 2023/24), and higher interest to pay on that debt, a radical shift is needed, away from just throwing good money after bad into SOEs and other grandiose state-led plans.

Does government believe in the power of the people, in their ability to build the kind of South Africa they deserve? Its ideological and policy decisions of the last 10 years appear to indicate otherwise. As recently covered in *The Economist*, both the Cuban and Venezuelan governments are pursuing more open economic policies "to rescue their moribund economies".

When will the South African government realise the failings of its chosen ideology? Stop whittling away at economic freedoms – South Africans are too full of grit and potential to not make a success of their lives, and after centuries of various states trying to impose on them and control them, it's time for some truly radical change.

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