OPINION

NEVA MAKGETLA: Treasury oversells its proposals by ignoring the costs and risks

Discussion document is a shopping list that starts with the desired outcomes and then looks for solutions in unsuitable theories

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The Treasury building in Pretoria.Picture: RUSSELL ROBERTS

The Treasury's recent policy discussion document reminds one of the well-known definition of insanity. It falls within SA's long tradition of economic policy shopping lists, seen most recently in the Treasury's own 2017 inclusive growth action plan.

From experience, most commentators will discuss only the broad goals listed in the introduction, without assessing whether the proposed measures are viable. Meanwhile, government departments will cherry-pick the bits they agree with and ignore the rest. This approach avoids the hard task of negotiating and pursuing genuine high-level priorities through practical, coherent strategies.

Given SA's deep inequalities, any shortlist will be fiercely contested inside and outside the government. Much easier for officials to brainstorm inside their own bubble, then blame the rest of the government for failing to implement their proposals.

As so often, the proposals have not been tested for political or economic viability. Even the quantitative "test" of the measures at the end of the document starts by assuming the benefits of each one, without analysing their likelihood of success. Overselling proposals by ignoring their costs and risks is a besetting sin in the government, leading to programme failures and unintended consequences.

The document reaches its policy proposals mostly by listing desired outcomes and then looking to abstract prescripts for solutions. But fundamental economic theories did not arise to analyse postcolonial circumstances. Rather, they emerged in economies where technologies were broadly accessible, incomes and assets were fairly equal, and market dominance was the exception rather than the rule. In these circumstances, markets will indeed typically meet consumer needs while holding down costs and incentivising innovation.

Unfortunately, markets are less likely to bring about socially desirable outcomes when, as in SA, colonial rule entrenched deep inequalities in incomes and assets as well as market concentration in many industries. Moreover, advances in technology make it hard for newcomers to catch up on domestic and global markets. In these circumstances, markets often reproduce inequality by shutting out the poor majority and sustaining high barriers to entry. Established large businesses can use their power to maintain state support, especially around infrastructure and incentives, and look to monopoly practices rather than innovation to sustain profitability.

The document's proposals on network infrastructure — electricity, telecommunications, transport and water — point to the problems of letting orthodox theories dictate remedies. For every infrastructure sector, they would expand the role of private providers, promising independent regulators to deal with monopoly pricing, ensure basic services for poor households and generally co-ordinate investment and supply.

This approach ignores SA's extensive, mostly woeful, experience with independent regulators. In our world, capacity is spread thin between government departments, businesses and the regulator itself. Mass poverty makes the majority, not just a few households, unattractive customers; fragmented state institutions have divergent mandates and regulatory powers; and concentration is high.

As a result, the existing regulators generally can't make large suppliers hold the line on pricing, provide consistent services to poor households or small businesses, or maintain the value of their assets. Meanwhile, they introduce additional regulatory hurdles, unpredictable delays and, often, bias in decision-making.

It's true that letting more suppliers produce electricity seems critical for resolving the impasse. But we need to acknowledge and manage the costs and risks, mostly around writing off Eskom assets and managing the grid. Moreover, experience shows that whatever they promise at the start, any companies that buy Eskom plants will end up lobbying for higher tariffs.

In contrast to electricity, there is no obvious need to bring in private competitors in rail transport or bulk water. For all the shortcomings in these areas, SA compares well with other upper-middle-income economies. A less dogmatic, more practical approach would identify the real challenges, rather than turning to disruptive theoretical "solutions" that run the risk of bringing higher prices and worse services, especially for the poor.

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