VIEWPOINT AND OPINION:
SCOPE FOR AND LIMITATIONS TO DEREGULATION AND PRIVATISATION OF SOUTH AFRICAN AGRICULTURAL SERVICES

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Abstract

The half century following 1930 witnessed world-wide increases in state involvement and interference in economic life. Public regulation and public enterprise brought in their wake gross inefficiency and inequity. Public enterprise could not maintain production efficiency. This, together with increasing regulation, created an ever-increasing burden of social services, monopolies, increased taxation, deficit budgeting and inflation. Governments and the public became increasingly unable to carry these burdens. This led to policies of deregulation and privatisation with improved effectiveness, efficiency and public finance as motives. Competition is vital to efficiency. Privatisation takes on different forms, depending on what is privatised and to what extent: provision or production. Persistence or formation of monopolies, changed objectives, staff and management problems and accountability present distinct pitfalls with deregulation and privatisation. These pitfalls must be overcome and avoided. Diversity and dualism in South African food needs and agricultural production imply too much needed diversity in products and market structures for a regulated environment. Deregulation and privatisation are needed.

Samevatting

Geleenthede vir en perke aan deregulering en privatisering van Suid-Afrikaanse landboudienste


1. The origin

In most developed countries of the world, the economic setbacks of the 1920's and 1930's heralded the start of increased and ever increasing state interference in economic and social life. Governments perceived it as their vehicle to re-election or maintenance of rule. They sometimes also perceived it as their duty to get involved with or to control various facets of economic and social life which had traditionally been the province of private individuals and firms. This included both production and services. A dogma became popular that increased social services by government, and control by government employees over the private sector would in the long run solve most economic and social problems and even create utopian happiness. This popularity was particularly high among those who benefitted therefrom in terms of own stature.

The same tendency was evident in newly independent, economically less developed countries. They depended on, and accepted advice from experts from developed countries; some of these experts were possibly better endowed with missionary zeal than with economic and/or sociological expertise. The result was a preponderance of state-controlled and state-run organisations in production and service activities. This tendency was also strengthened by the extent to which these countries accepted advice and/or aid from centrally planned economies.

The centrally planned economies, with the Soviet Union and the People's Republic of China as the two main entities, had already at the time of their revolutionary origins accepted centralised government control and centralised decision-making by the state or statutory bodies as their main economic and sociological strategies.

Practically the whole world, albeit with different countries moving at different speeds, were headed towards increased socialisation and increased state control.

The result was increased state share in economic life. This was often, for various reasons, associated with lower efficiency. Entrepreneurial activity in the private sector often became stifled under a load of prescriptive public regulation. Restricted entry, due to public favouritism toward some companies or statutory corporations, licensing regulations etc. effectively led to monopolisation and lower efficiency. State-run ventures face less pressure to be profitable than private ventures. Often, if they do not actually make losses, they nevertheless, because of prescribed procedures and/or objectives, consciously deviate from economic optima (Fenyes and Groenewald, 1976).

The deviation from profit motives naturally caused many state-run ventures not to realise profits and therefore not to generate sufficient funds for needed expansion. In order to generate funds for expansion and to compensate for losses, governments had to generate funds by their only two means: increased taxation and deficit finance. The result is inevitably inflation and/or a larger tax burden on individuals and private
sector firms. Less money is available for private savings (thus adding fuel to inflation) and hence, for private investment (therefore retarding economic growth). Resulting inflation and stagnation have impaired the currencies of some countries, including South Africa. Vicious cycles developed.

Most of the economies of the world reached a point where they could no longer afford the drift toward socialism. The less developed countries became overwhelmed with foreign debt. The members of the OECD experienced sudden and substantial reductions in economic growth rates: Growth in industrial production, for example, declined from 5.6 per cent (1946-1973) to 1.9 per cent (1974-1984) (White paper, 1987). Inflation, already fueled by the oil crisis, become rampant. In the United States, government spending rose from 33 per cent of national income in 1960 to 41 per cent in 1980. During the same time, taxes increased from 22 per cent to 26 per cent of national income (Friedman and Friedman, 1984).

South Africa has had a long history of government intervention and regulation affecting agriculture, impeding resource mobility and regulating access to markets. Toward the late nineteenth century, for example, black farmers in the Eastern Cape underwent rapid change toward modernisation and commercialisation of their agriculture. This move was effectively ended by a series of Location Acts and the Glen Grey Act, which effectively cut them off from access to the land needed to produce for a market. A series of similar legislation followed in all provinces, eventually culminating into the Land Act (1913).

Important motives were the protection of white farmers from competition and assurance of a steady supply of labour to the white farms and mines (Louw and Kendall, 1986). The governmental involvement kept on increasing; between 1910 and 1935, no less than 87 bills were enacted by Parliament relating to land, and more was to follow, with the Native Trust and Land Act (1936) the Group Areas Act (1956) and the Subdivision of Land Act (1970) the most important (Kassier and Groenewald, 1990).

From 1920 onwards until approximately 1980, governmental involvement in agriculture increased rapidly. This related both to markets for farm products and supply of farm inputs. Some of the main examples are the Marketing Act (1937), Cooperative Societies Act (1922) and the Agricultural Credit Act (1966). These acts had much in common with similar acts in the Western World, with the exception that racial divisions could be accommodated in them. They were part and parcel of a process of increased regulation and socialisation. By 1988/89, some 90 per cent ad valorem of South Africa agricultural production was subject to some type of marketing control which in some cases amounted to monopoly control. About 60 per cent was, at one stage of the marketing channel, subject to statutory monopolisation by control boards (through one-channel marketing) or statutory corporations (eg. AbaCor). Many cooperatives have been placed in local monopoly positions by being the sole local agents for marketing of certain products. Regulations have mushroomed and overlapped. Even a straightforward type of business venture such as a roadside stall was, at one stage of the marketing channel, subject to statutory control board (eg. control board) management becomes a bureaucracy which adopts an objective to expand its power base, even if this contradicts the original mission which was its raison d'etre. The private interest of those who manage the monopoly or who regulate predominates, and this often causes regulations to be purposefully designed by public bureaucracies to render the private sector inefficient and thereby to increase the relative attractiveness of the public sector. Bureaucrats have compelling incentives to over regulate and to do it inefficiently. If they go unchecked, these incentives dominate bureaucratic behaviour (Benson and Faminow, 1986; Benson and Greenhut, 1986). The public sector usually also suffers from an inability to curb proliferation of expenses. This is partially due to the process of political decision making (Brand, 1986; Friedman and Friedman, 1984). If there is call for a government program - such as protection or subsidisation of a certain powerful group - there is intensive lobbying on the part of the small number of people or institutions who stand to gain from it while resistance is dispersed and uncoordinated. The labour unrest and an inability to compete internationally. Britain was on the skids. People either referred to Britain as the Sick Man of Europe or to economic deterioration as British Disease (Pirie, 1987).

It is in this situation that the Thatcher Government embarked on the policy of deregulation and privatisation. The aim is and has been to reduce needs for government spending, to increase government revenue through an expanded tax base, and to improve efficiency by transferring selected activities to the private sector. Through deregulation private sector companies - including newly privatised concerns - have more leeway for entrepreneurial action. Freer entry can engender competition and efficiency.

From an intellectual point of view, deregulation and privatisation represent a modern reaction to political, social and economic doctrines which had their roots in the nineteenth century, particularly in Karl Marx and his followers' scientific socialism and the school of Progressivism which prevailed in the United States (Truu, 1988). To this should be added the twentieth century thoughts of J M Keynes and his followers such as A H Hansen and P A Samuelson.

The end of the 1980's has seen the collapse of East European political and economic systems. The failure of nationalised agricultural, mining, industrial and service industries under central control and centralised direction was probably the main cause also of the political collapse of Eastern Europe. Socialism in the form practiced there is now discredited. The result is a drive toward privatisation practically all over Eastern Europe, including the USSR.

2. Conduct of public institutions

Since institutions are managed by people, their conduct becomes a mirror of the aspirations of those involved with their management. Institutions, like people, usually have as first objective the strengthening of their own position in terms of wealth, income, influence or power. They will therefore strive to strengthen their position relative to those of their competitors. It follows that should the potential arise, an institution will endeavour to obtain monopoly powers. These behavioural patterns pertain both to public and private institutions. Institutions that obtain monopoly powers invariably eventually behave like monopolists, irrespective of the source of monopolistic power or whether it is a public, statutory or privately owned monopoly. Neither do they have a real pressing need, nor an incentive, to be effective and efficient. Therefore, they invariably end up by rendering smaller than optimal quantities and qualities of products and services at higher prices and costs than would otherwise prevail. Monopolies usually result from regulated access to factors of production or from regulated market entry.

In a monopoly or statutory regulatory institution (eg. a control board) management becomes a bureaucracy which adopts an objective to expand its power base, even if this contradicts the original mission which was its raison d'etre. The public interest of those who manage the monopoly or who regulate predominates, and this often causes regulations to be purposefully designed by public bureaucracies to render the private sector inefficient and thereby to increase the relative attractiveness of the public sector. Bureaucrats have compelling incentives to over regulate and to do it inefficiently. If they go unchecked, these incentives dominate bureaucratic behaviour (Benson and Faminow, 1986; Benson and Greenhut, 1986). The public sector usually also suffers from an inability to curb proliferation of expenses. This is partially due to the process of political decision-making (Brand, 1986; Friedman and Friedman, 1984). If there is call for a government program - such as protection or subsidisation of a certain powerful group - there is intensive lobbying on the part of the small number of people or institutions who stand to gain from it while resistance is dispersed and uncoordinated.
proponents therefore have a political advantage, and more of-
ten that not succeed in their campaign, even if increased taxa-
tion, inflation, monopolisation and inefficiency would cause the
effect on society as a whole to be unfavourable. Efforts to
reduce government involvement likewise often run into con-
centrated resistance. Politicians often find it expedient to buy
votes by promising voters goods to be paid for by other voters.
They remain silent as to who will foot the bill (Friedman and
Friedman, 1984).

The actual conduct of government programs is inevitably
delegated to bureaucrats. Since the bottom line is not profit-
oriented, there is no clear-cut mechanism to terminate unsuc-
cessful experiments. Weaker performance in the public sector
is not primarily caused by lower aptitudes on the part of
government bureaucrats. It is caused by the system.

There is, however, no prima facie evidence that public sector
enterprise is per se less efficient than private enterprise. A sur-
vey of analyses yielded conflicting evidence (Kay and
Thompson, 1986). Private monopolies do not necessarily fare
better than public monopolies. For example, British Airways
(a public monopoly) was very inefficient while the public Air
Canada turned out to be very efficient. The difference was that
Air Canada operated in the competitive North American
market (Kay and Thompson, 1986).

Public entities (production units as well as regulatory agencies)
have often been given changing and contradictory objectives,
which have frequently also been altered by short-run
governmental intervention (Kay and Thompson, 1986; Estrin
and Perotin, 1987). This creates confusion and engenders ineff-
ciency. It also complicates the evaluation of performance.
Some non-profit motives, such as under-priced output, output
maximisation or labour sheltering often reduce efficiency and
distort the economic system (Fenyes and Groenewald, 1976).

3. Aims with deregulation and privatisation

3.1 Deregulation

The aims with deregulation can largely be classified as promo-
tion of the objectives of decreased government expenditure,
more efficient markets, improved resource allocation and
decentralisation of decision-making.

Governmental regulation of economic activity tends to be an
expensive exercise. Institutions are created for this purpose,
and each institution needs infrastructure, trained personnel and
variable costs. The various agricultural control boards in South
Africa have, for example, invested large sums - amounting to
millions of Rand - in office buildings (often of the luxury type)
and other physical amenities, they employ large numbers of
professional, administrative, technical and other personnel and
they incur substantial running expenses. These expenses are
borne by levies on products, and amounted to approximately
R926 million in 1989/90 - thus approximately 7.4 per cent of
the gross value of the products concerned. The costs of some
other regulatory agencies are borne directly by the State.

Governmental regulation, particularly of agriculture, has
worldwide resulted in distorted commodity markets and trade
distortions. Prices have ceased to be at market-clearing levels;
artificial surpluses and shortages have been the result. In
South Africa, for example, maize prices have over the last
decade and more, usually exceeded realisations on export
markets. The losses thus incurred have partially been covered
by increased margins between the local selling and purchase
prices of the Maize Board. The effect was a form of cross sub-
sidisation with local buyers effectively subsidising foreign pur-
chasers.

Stigler (1971) portrayed regulation as a process of demand and
supply. Interest groups such as lobbies demand protection,
which can be supplied by politicians. The effect is the transfer
of wealth from unorganised or politically ineffective groups to
interest groups with political clout. In South Africa, as in some
other countries, Organised Agriculture has historically had
such political influence. In a dynamic situation, one may expect
the conditions (the price) of regulation to change according to
changes in the relative power base of the lobbies involved:
These changes affect both demand for and supply of protec-
tion; the curve can shift to the right or the left. It is fair to
reflect that increased regulation will benefit particularly those
interest groups and bureaucracies closest to the power centre
of the lobby. Restrictive access to a market, for instance,
creates its own rent-seeking bureaucracy which in its turn,
strives to expand its monopoly or monopsony powers over
those who deal with them. The Maize Board and Wheat Board
have, for example, granted monopsony rights to co-operatives
(a powerful group within Organised Agriculture) for the intake
and handling of maize and wheat in most maize and wheat
producing districts. Some years later, these same co-ops had
become sole agents for the supply of subsidised short term credit
from the Land Bank. In practice, this credit could be used only
for purchases from the co-op concerned, thereby strengthening
their local monopoly powers. This situation has now reached
the stage where at least one of these co-ops have used this as
leverage to force out competitors who have sold inputs to
farmers at a lower price (Financial Mail, 1990).

It appears that a stage has now been reached in South Africa
and in other countries where the inflationary effects and also
some (albeit often unorganised) public resistance to some
market distortions have caused politicians to move the supply
curve of regulation to the left; a price is asked, in terms of
political advantage, which cannot be sustained at existing levels.
The movement therefore tends to be toward less regulation and
hence also to freer markets.

Freer markets (less regulation) will also tend to increase ef-
ciciency of resource allocation, since resource demand, supply
and price will move closer to equi-marginal yields.

Decentralised decision-making - thus involving less regulation-
is now regarded internationally as being at the core of
revitalisation of many economies of the world. The big need is
to allow entrepreneurs to make entrepreneurial decisions in a
competitive world. The emphasis has now changed to
government's role to promote, rather than to regulate
economic development.

3.2 Privatisation

The aims of privatisation have been classified as pertaining to
considerations of public finance, efficiency in the use of
resources, distribution of benefits and ideology (Brand, 1988).
In terms of public finance, privatisation can aid in reducing
costs of government and decreasing its share of the economy by
shifting certain actions to private enterprise, thereby reducing
costs to government. Selling off government ventures can con-
tribute to a lowering of public debt. A consequent widening of
the tax base will aid government revenue and simultaneously
reduce per capita tax rates. These benefits can accrue only if
government moves away from deficit financing, refrains from
using proceeds from sales for current expenses and if the
resources released by the public sector are used to good effect
by the private sector.

Efficiency enhancement can result therefrom that decisions in
the private sector will be made by persons who will have to
bear the full risks involved with results, in contrast to public
sector employees whose decisions are subject to less stringent
measures of success or failure, and who are thus less account-
able for their influence on the use of resources (Brand, 1988).

Efficiency can also be improved by privatisation (and deregula-
tion) since quantifies of goods and services demanded become
a function of full costs rather than prices resulting from politi-
cal decision-making (Brand, 1988). Efficiency will be increased
if competition becomes more prevalent and lively. Various
analysts have stressed that increased competition is an indis-

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pensable prerequisite for increased efficiency through privatisation, and this viewpoint has been amply demonstrated by industry case studies on privatisation (Kay, 1978; Thompson, 1987; Kay and Thompson, 1986; Kolderie, 1986). Kay and Thompson (1986) point out that normally, when some activity is privatised, managers of the new private firm are literally those who had managed the old public venture one day before. Any change in efficiency will clearly result not from the ability of managers, but rather from competitive pressures. The White Paper (1987) also stresses the importance of competition. For this reason it will, for example, not serve the efficiency purpose if Abacor is merely turned over to a private monopoly with an intact monopoly power base.

Distributional aims are also often stressed in that it is claimed that privatisation will give more people a share in the general economy and in national welfare. Reduced government expenditure and a widening of the tax base will moreover reduce per capita tax rates. The efficiency and distributional aims imply faster economic growth.

4. Types and methods of privatisation

Kolderie (1986) distinguishes between providing and producing a service and the roles of the public and the private sectors. He uses four examples concerned with security.

Case 1: The public sector does both: pure public sector

The legislature writes a law, provides the money and the Department of Prisons runs a gaol. Neither function is private.

Case 2: A mixed case. Provision is public, production private

The Department of Education wants to protect school children and enters into a contract with a private firm to supply guards.

Case 3: A mixed case. Production is public, provision is private

The Northern Transvaal Rugby Union wants security at Loftus Versfeld, and contracts with the South African Police to provide it. Government produces and sells a service to the private sector.

Case 4: Both activities are private

A supermarket wants uniformed security guards and either employs its own guards or contracts with another private firm to provide these guards. The public sector is not involved.

In terms of provisioning a service, the difference is clearly on whether the decision on the nature and extent of the service is a political decision or not. The party that provides the service foots the bill, even if it is produced by another entity. Economic rationality dictates that another party will be contracted to produce the service only if it will do it cheaper and/or more effectively than the provisioning party. Thus, privatisation can occur with respect to production, or provisioning, or both. If it concerns production it can be in the form of contracting, or selling a public entity or facilities, or renting facilities to private firms. If it concerns provisioning, it will amount to a decision to reduce governmental responsibility. If the government does, for example decide, that the supply of agricultural extension to one or more classes of farmers ceases to be its responsibility - and therefore takes the position that it must completely be done by the private sector - then this is a form of privatisation. Mixed modes can also exist. The government may decide to foot the bill for 30 per cent of extension to a certain group, and handle the affair by subsidising private extension to these farmers. The provisioning is partially privatised, while production is privatised completely.

5. Pitfalls with deregulation and privatisation

There are several distinct pitfalls involved with deregulation and privatisation. These pitfalls have to be overcome if deregulation or privatisation, however desirable it may be in a certain case, is to yield acceptable results.

5.1 Persistence and/or formation of monopolies

More deregulation or the mere change-over of a state-run monopoly to a private monopoly does not serve the aim of efficiency. Nor does it serve the aim of distribution. There are signs of precisely this occurring in South Africa, with Eskom and SATS being important examples. Neither can one think of successful privatisation if the controlling interest in one state venture is sold to another State-controlled undertaking - as in the case of ISCOR (Havings, 1989). It also follows that a mere transfer of present governmental agricultural institutions to a single statutory board (for example, the new Agricultural Research Council) or so called service centres under central management cannot be regarded as a viable form of privatisation. Neither are the objectives realised if deregulation keeps a monopoly intact. When the Dairy Board relinquished price control over fresh milk, problems became more, rather than less serious. The reason was a highly monopolised fresh milk distributive trade - a monopoly which had been nurtured and protected by the Fresh Milk Scheme.

5.2 Changing objectives

If the State had specific social-oriented objectives with a certain service, deregulation or privatisation may thwart these objectives. Regulation often has nominal aims of community interest, however badly community interest may be perceived. These aims may run counter to business firms' goals, which will naturally include profits. Privatisation also often changes the prime objectives of a firm. The private firm is primarily dependent on, if not primarily interested in profitability while the public entity may have different social or political objectives. If the objectives of regulation or public entities have become obsolete (as often happens) or have been misdirected (also a well-known phenomenon) the change may indeed be advantageous. In some cases however, the original objectives may still be regarded as ethically desirable. Conservation of natural resources is an example.

The solution may sometimes lie in only partial privatisation. Then the public sector body will have to make a value judgement as to the level of motivational change it regards as acceptable (Bbss, 1987). This may for example pertain to a desire by the government to maintain quality standards different from those produced by the market. Contracting out can become very complex if quality has to be maintained (Blankart, 1987).

The state may also be worried about what Kolderie (1986) call screaming. This phenomenon implies that only those on the top of the pyramid will receive a service; only they can afford it. In such cases, some regulation or public enterprise may still be desirable.

5.3 Staff and management problems

People who run and are employed in public service activities have invested their careers in such operations. They will be more willing to change into new competitive situations if it will yield them additional benefits without loss of all the security they have enjoyed. A procedure to adequately ensure continued employment of public servants has, for example, been missing in some U.S. privatisation procedures (Horner, 1986). Government employees are often also worried about retirement benefits if their jobs are privatised. In addition, the government service tradition often renders personnel reluctant to reduce the size of their workforce because they fear they may be downgraded as a consequence. According to Durant
(1986), this reduces managerial enthusiasm for privatisation. It will obviously also reduce enthusiasm for, or strengthen resistance against deregulation.

The solution to such staff and management problems will at least partially lie in the realm of sound personnel management practices. Deregulation and privatisation create redundancies. The problem of redundant workers can probably best be cured and handled by retraining people for tasks with a somewhat different nature and by giving to these people priority for openings that do arise in the government service. People do leave the government service for reasons other than redundancy; they retire or resign for various reasons. Job enrichment is simultaneously important for public service managers as well as those to be retrained. Job enrichment can forestall the perception of downgrading merely because a person's array of subordinates is decreased numerically. It is necessary that public service personnel must not feel that their situation will become insecure if and when deregulation or privatisation occurs. Neither must they have reason to fear demotion.

The approach as described above, will necessitate identification of government servants whose livelihood, benefits and advantages can be affected, followed by the design of schemes to improve or secure these people's advantages. Greater independence can be part of job enrichment. In the case of privatisation, private sector salaries can have important motivational effects. The approach will also involve anticipation of all possible objections and the design of means to overcome and answer these objections. Pirie (1987) describes these two strategic or tactical steps as "making friends out of enemies" and "disarming objections". These steps, particularly retraining will, over the short run, require substantial government expenditure. In the longer run, the benefits from increased effectiveness and efficiency should overshadow these costs.

In the event of privatisation, inexperienced of management and other staff, both in the shape and conduct of private enterprise, will often result in serious transition problems as well as impeded effectiveness and impeded efficiency in the newly privatised venture. The solution to this problem lies in privatising the privatisation process; privatisation and deregulation often involve the formation of private sector-styled companies, a facet on which the public service lacks know-how. There are however private companies with specialised know-how and experience in this regard (Pirie, 1987). It will likewise be wise to obtain private sector insights in a process of deregulation.

5.4 Accountability

Privatisation of social services, in the event of continued governmental responsibility regarding provision of a service, will often involve partnerships and/or contracting. The base of any sound contract revolves around remuneration and accountability. Accountability involves the ability to measure output in terms of results. In the case of services, such measurement may be extremely difficult and complex. Agricultural extension and research may be cases in point.

In the case of agricultural extension, objective measurement of extension impact will be a prerequisite for success in the contracting form of privatisation. Input-type measurement - eg. number of farmers' days or farms visited - does not satisfy this requirement. Some research on impact evaluation done on a socio-economic basis may have to precede serious discussion of privatisation of some facets of agricultural extension.

Evaluation of research presents similar problems. Some agencies, such as the Human Sciences Research Council, employ peer evaluation in this respect. The evaluation can be less effective if not enough emphasis is given to the mission or purpose of the research, its effectiveness in achieving results relevant to problems and ultimately the aspect of efficiency - how well the research was conducted. It has been argued that it is possible for research to be efficient and also simultaneously irrelevant (Groenewald, 1990).

Ultimately, of course, the government's aims with facets of services need to be questioned, and often jettisoned or changed. This may reduce some of the strains concerned with accountability. In a fast moving world - and particularly in South Africa - many aims with regulation and State intrusion have become obsolete or were already counter effective at their inception. One may, in this regard, look at factors restricting entry to markets or mobility of resources, especially those which discriminated between racial groups or against smaller operators.

6. Scope for deregulation and privatisation

The South African economy, as many other economies, is in need of restructuring with the aim of restoring its dynamics so as to render to all inhabitants of country improved living standards. The aim must be improved growth, effectiveness, efficiency and equity. Agriculture is not an island in the South African economy. It must be part and parcel of economic restructuring. Over-regulation and too much state involvement have at times and lately, simultaneously resulted in large transfers of wealth from consumers and taxpayers to white commercial farmers (Kort and Kleynhan, 1990) - especially the larger wealthy ones - and from farmers to industrialists or businessmen who were shielded either by government protection or by restrictive registration and/or sole agencies (Groenewald, 1986).

The World Bank (1989) ascribes much of Africa's economic woes to five factors:

(i) Poor public sector management, resulting in loss making public enterprises, poor investment decisions and costly and unreliable infrastructure;
(ii) price distortions, causing inefficient resource allocation;
(iii) imbalances between wages and productivity;
(iv) scarcity of appropriate intermediate technology; and
(v) a deteriorating quality of government.

These conditions appear to be endemic in South African agriculture.

The cure must lie in a new policy orientation: the government task should be seen to promote, rather than to control development. It should not be an active player in the economic game, but it should be a referee. The referee should become an expert on the rules of the game, and apply these fairly and equitably. Also in line with the World Bank (1989) situation, the policy approach must include, inter alia, a larger role for the private sector, policies that permit prices to reflect supply and demand and sound environmental policies.

The main role of government should firstly be to have appropriate rules to handle antagonistic relationships which may inherently be part of the scene. The objectives or interests of a person, firm or institution are often antagonistic to those of society as a whole. A monopoly - public or private - which restricts or forbids entry of all others is an important example. Other examples are problems with pollution of all types, be it water, land, noise or whatsoever. There is certainly a case for the pollution legislation. There is a case for regulations regarding nature conservation. South Africa is in need of more effective monopoly control. There can, in the long run be no real justification for the exemption of certain institutional types (eg. cooperatives, control boards, statutory organisations and municipalities) from monopoly legislation. It is, however, not necessary for South Africa to repeat the mistakes made elsewhere. Thorough study of U.S. antitrust experience can go far to avoid the costliest mistakes. The point is also that vested interests should not be allowed to keep on controlling services or supply, thereby earning rent to themselves to the detriment of
all others. It is also a duty of government to contribute meaningfully to the development of human capital. Poor people should particularly be helped in this respect. Thus the State has to provide education. This does not immediately imply that it should produce all the education; students, schoolchildren and/or educational institutions may instead be subsidised.

The State has a major task to promote equal access to opportunity. This involves not only human capital but also other resources. The land market must be freed. Cross subsidisation - eg. of transport of grains - should likewise disappear. At present, farmers close to markets receive the same prices as those further removed. The farmers close to the market therefore subsidise those further away, and this subsidy naturally capitalised in land rents.

In his analysis of economic reform, the managing director of the IMF makes five important observations (Camdessus, 1990):

(i) Attempts to find a "third way" between central planning and a market economy have not been successful;
(ii).piece-meal approaches have not been successful; the elements of an economic system are interrelated. Prices should therefore be freed as far as possible; this will involve both anti-monopoly action and a freer system of wage determination;
(iii) strong financial discipline is needed;
(iv) it is unknown how long it will take for reform to elicit supply responses; and
(v) firm macro-economic policies are necessary.

This implies a deliberate, well planned process of deregulation and privatisation. The point regarding piece-meal approaches is very relevant indeed. When the Dairy Board decided to relinquish price control over fresh milk, the market was left to monopolies which had gained that position under the auspices of the Dairy Board; sole fresh milk distributors in urban centres acted precisely as monopolists would. As a result, fresh milk consumption remained static, whilst the urban population increased rapidly. Neither can economic gains to the country and population be expected if public roads are turned over to a single toll road monopoly.

Such procedures can more rather than not discredit the sound economic policy of deregulation and privatisation; not because of errors in the policy itself but because of injudicious or ignorant application. The sequence must be first to take measures for opening the market and then further to deregulate and/or privatise. The recent decision by the Minister of Agricultural Economics and Marketing not to turn the Meat Board into a private monopolistic organisation must be welcomed for this very reason.

Leon Louw (1990) has recently advanced the idea of turning state monopolies over to small businesses. He took railways as a possible example. Railways could work like roads. The government owns the roads, but not the vehicles on them. Thus, the railways can rent out trains or use rights with cross subsidisation and needs be expected if public roads are turned over to a single toll road monopoly.

Deregulation and privatisation will also, when it occurs, be associated with deformalisation and the rise of small firms. These will, more than present structures, be able to utilize what Onyemelukwe (1974) labeled as 'economies of de-scale'. This can potentially be of much use also as part of affirmative action.

The State will always have functions to provide. Production of some of these can fruitfully be privatised. Many regulations have become obsolete, others have for practical reasons never been applied and many more have been counter productive. The latter group impinged either on effectiveness, efficiency or equity. The main requirement is to allow existing and latent producers, traders, processors and consumers to use their skills to best advantage. Government should provide facilitative opportunities. All groups will need some protection against monopolies of political, social and economic power. The latter includes foreign governments should their policies distort world markets.

Classic wisdom can provide a guideline in policy:

"There is as much justice in the equal treatment of unequal cases as there is in the unequal treatment of equal cases" (Aristotle).

References


