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THE Motor Industry Development Programme (MIDP) continues to be touted as one of the major successes of post-apartheid industrial policy. As befits such an important programme, government has commissioned an independent review to examine its effectiveness and to make recommendations for future policy direction in this sector.

While government and the review team have been careful to keep their analysis under wraps, announcements from government and the industry fill us with anticipation.

Senior officials in the trade and industry department have told us that the review supports a continuation of the MIDP well past its currently scheduled end-date in 2012 (Business Day, June 26 2006).

On the other hand, we are told that the MIDP Review Team is led by an ex-industry official, has no need for an economist and has undertaken no analysis of the costs and benefits of the programme.

Meanwhile, the industry makes regular and self-righteous public announcements about impending doom for them and their workers unless government support is continued.

And while the industry is happy to pronounce on the virtues of state subsidies, it is not so happy to receive criticism from the consumers who pay for them.

Those who dare to raise questions are labelled as “misguided and disingenuous and appear to be based on hidden agendas” (Nico Vermeulen, Naamsa, Business Day, November 8 2005), or are “superficial and short-sighted” and appear to come from “Cloud Cuckooland” (Roger Pitot, Naacam, The Exporter, November 2005). If you choose to read further, don’t say we didn’t warn you!

The MIDP was set up in 1995 to assist an industry that was self-sufficient as a result of extremely high import duties and onerous local content requirements.

But, for the same reasons, it did so at very high cost, and the industry could not have survived in that form in the face of trade liberalisation.

The programme provided very generous subsidies to exports and gradually declining import duty rates as a means of encouraging rationalisation of production into a smaller number of product lines for export, and a greater reliance on imports to provide the variety of vehicles demanded in the local market.

Since the export subsidies were directly dependent on the size of the import duties on cars and components, gradually falling rates provided a natural phase-down of government assistance. The programme was initially scheduled to run for five years. It has been extended twice already and is now scheduled to end in 2012.

The aim of the programme was to assist the industry, if possible, to attain some degree of international competitiveness. The costs have been extremely high.

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We guess that the current level of government support is running at more than R5bn a year. It could be more. It is unlikely to be less.

For every R1bn invested in the motor industry, the government hands out an additional R3bn.

At best, this "subsidy" goes towards covering the high cost of producing motor vehicles in SA and the inefficiency of local producers. At worst, it goes into the pockets of a few international vehicle companies.

These costs are borne primarily by South African consumers through high import duties and high car prices that are necessary to subsidise South African exports through the MIDP.

There has been much debate between economists about the relative cost of cars in SA. But while geeks continue to squabble, regular South Africans know that they are being ripped off.

The Competition Commission has sided with the regular crowd. Cars, in Cloud Cuckooland, are clearly expensive.

These costs are not shown in any government budget and they are not reported to Parliament.

We do hope that the MIDP Review Team provides some assistance in reporting on the costs of the existing programme and any proposed extensions to it.

And if not, it certainly is incumbent on the trade and industry department to do so before announcing any new policy directions.

Have the MIDP subsidies worked? According to all claims and reports from the motor industry, it remains hopelessly uncompetitive and will rely on government support indefinitely. Maybe the review team's report will show otherwise, in which case the programme can be phased down as originally planned, if not more quickly.

Has the MIDP been a boon to employment?

Less than 15% of all the jobs in the motor industry and motor trade are in vehicle production, and the number of these jobs has fallen since the start of the MIDP.

The vast majority of jobs in the sector are in distribution, sales, service and maintenance.

Keeping car prices high reduces vehicle sales and hence the growth of jobs in this important sector. It also draws scarce investment and costly skilled labour into this uncompetitive industry at the expense of other sectors.

The geeks are eagerly awaiting the release of the MIDP Review Team's report.

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