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Singling out firms for help is unnecessary and unwise

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NEARLY every day we hear stories about
the pleas of particular groups for special government assistance to deal with the economic slowdown. Let me begin by putting this into perspective.

Like most of the rest of the world, SA is suffering from the macroeconomic knock-on effects of the global financial crisis. Fortunately, our prudential financial sector regulations and macroeconomic policy framework have protected us from the direct toxic shock of financial market meltdowns.

This assists us in avoiding the worst damage from the global downturn, in ensuring that we can help workers adjust to economic change, and in helping us to emerge as a more globally competitive economy.

In our February budget we put in place a fiscal stimulus that is large relative to fiscal responses in other countries, and which will help to offset lower aggregate demand in the economy. We will use our fiscal savings from previous years to provide a broad macroeconomic stimulus, and to maintain and improve social safety nets and more general support for workers and vulnerable social groups.

Nevertheless, declining global demand will have negative repercussions for many in the South African economy, from mining to manufacturing to tourism. Many South African firms are adjusting in creative and productive ways to the slowdown, and most of them are doing this without the benefit of any special government assistance. Should we be doing more to directly assist firms to manage the downturn? Should we be giving selective bail-outs to firms and industries that claim they need additional help?

Some companies claim that they are in need only of temporary loans, or "bridge financing". Asking for government assistance assumes that South African financial markets are broken — that they are not working as they should. While this may be true of certain large developing economies, it is not the case in SA. There has been a decline in demand for loans, and some tightening of credit as a response to increased risk at a time of decreased demand. But firms that are fundamentally sound are not being denied capital to pursue sustainable business improvements.

Many firms, however, are asking for more than this — for loans at preferential rates from development finance institutions, for special tax breaks and various types of direct financial assistance that are essentially subsidies or bail-outs. Bail-outs and subsidies impose real costs on taxpayers, either directly through increased taxes or indirectly through the risks and costs of future public sector or state enterprise debt, and higher consumer prices.

Finance institutions such as the Industrial Development Corporation have large balance sheets and are free to adjust their portfolios where they judge the risk-return ratio to be in line with their investment strategy and the national interest. But to require them to invest in prescribed projects in response to lobbying, and to give them additional resources to do so, will ultimately create contingent liabilities whose burden will be borne by the state.

In short, support for some firms and sectors that ignores the need for these firms to be competitive over the longer term — or makes it unnecessary for them to be so — imposes higher costs on the rest of the economy. This cannot be consistent with our goal of increasing long-term competitiveness.

So, we have a vast majority of companies adjusting without special government assistance. And then we have a minority of firms asking loudly for help, most of which already benefit from major special public assistance in the form of tariff protection, tax incentives, delayed implementation of royalties, subsidised electricity and other industrial support measures.

Increasing the dependence of some sectors on subsidies is certainly not fair, and neither is it helpful in improving our long-term development prospects. We should not have a two-class private sector, with the majority of firms and workers using their efforts and entrepreneurial skills to improve their competitiveness in the market, while others rely primarily on lobbying efforts to increase their private profits at public expense.

Our goal in providing assistance to firms, whether short-term or long-term, should be to improve the long-run competitiveness of our economy. This is how we can ensure the growth that is necessary to meet our economic aspirations.

There is a critical role for the state in supporting our economic development and our adjustment to economic shocks and stresses. But doing so by singling out select firms for special support creates the wrong kinds of signals about how to improve competitiveness, and in the process undermines our capacity to provide broader countercyclical fiscal support to the economy as a whole.

Our limited state resources are better deployed in the pursuit of economy-wide measures that have as broad an economic impact across as wide a range of firms, sectors and workers as possible.

This starts, of course, with a stable, low-inflation fiscal and monetary environment. It includes vigorous enforcement of competition laws, continued improvements in our regulatory regime, continued streamlining of our tax and tariff systems and upgrading of basic transport, energy and telecoms infrastructures. Improvements in education and basic healthcare delivery must remain at the heart of our efforts to improve both competitiveness and social justice.

Finally, we need to be careful about justifying exceptional public support on the basis of false claims about what is happening elsewhere. Thailand, Sweden and the US have all indicated that either they will deny bail-out support to auto manufacturers or are replacing the management and demanding deep restructuring before considering any financial support. Executive pay is being capped and regulated. Perhaps that is the route the South African government should take.

Other governments may have allowed lobbyists to determine the best use of government revenue, but we should have no interest in repeating their mistakes. After all, socialising the losses of shareholders and managers is the only thing worse than nationalising firms outright. Destroying the incentive to create sound businesses is neither good for long-term growth nor what is required to deal with our shorter-term difficulties. A vigorous and competitive private sector is essential to our long-term economic development, backed up by an effective and capable public sector.

- Manuel is finance minister.